They said

Canadian National 2000 Annual Report

101-03465/

"ur thinkable."

–1995

Privatize Canadian National Railway Company? The lumbering, state-owned, subsidy-consuming behemoth? That's one IPO that will bomb. No one will want to invest in a company with the problems CN has had. It'll be a dog stock.

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Except where otherwise indicated, all financial information reflected in this document is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP).

"unattainable."

–1996

CN? It's going to be very difficult for them to compete. Look at them. Miles and miles of inefficient track. Operating ratio of 85 – sure, they were in the high nineties three years ago, but the leaders south of the border are at 78 and improving. They're a railroad. How can they catch up? They can't.

1014
1014
5771
57
Illinois
Central
CN

"unbelievable."

–1998

CN and Illinois Central? A merger between a Canadian and an American railroad? It'll never work. The cultural and operational differences are too strong. And look at what happened to some of the other rail companies when they merged. They'll have big problems, just like the others.

"unachievable."

–1999

You simply can't schedule an entire railroad operation. Most rail shipments are really a series of random events. It can't be done across an entire network, at least not on an ongoing basis. It's impossible. That's just the way it is.

We say

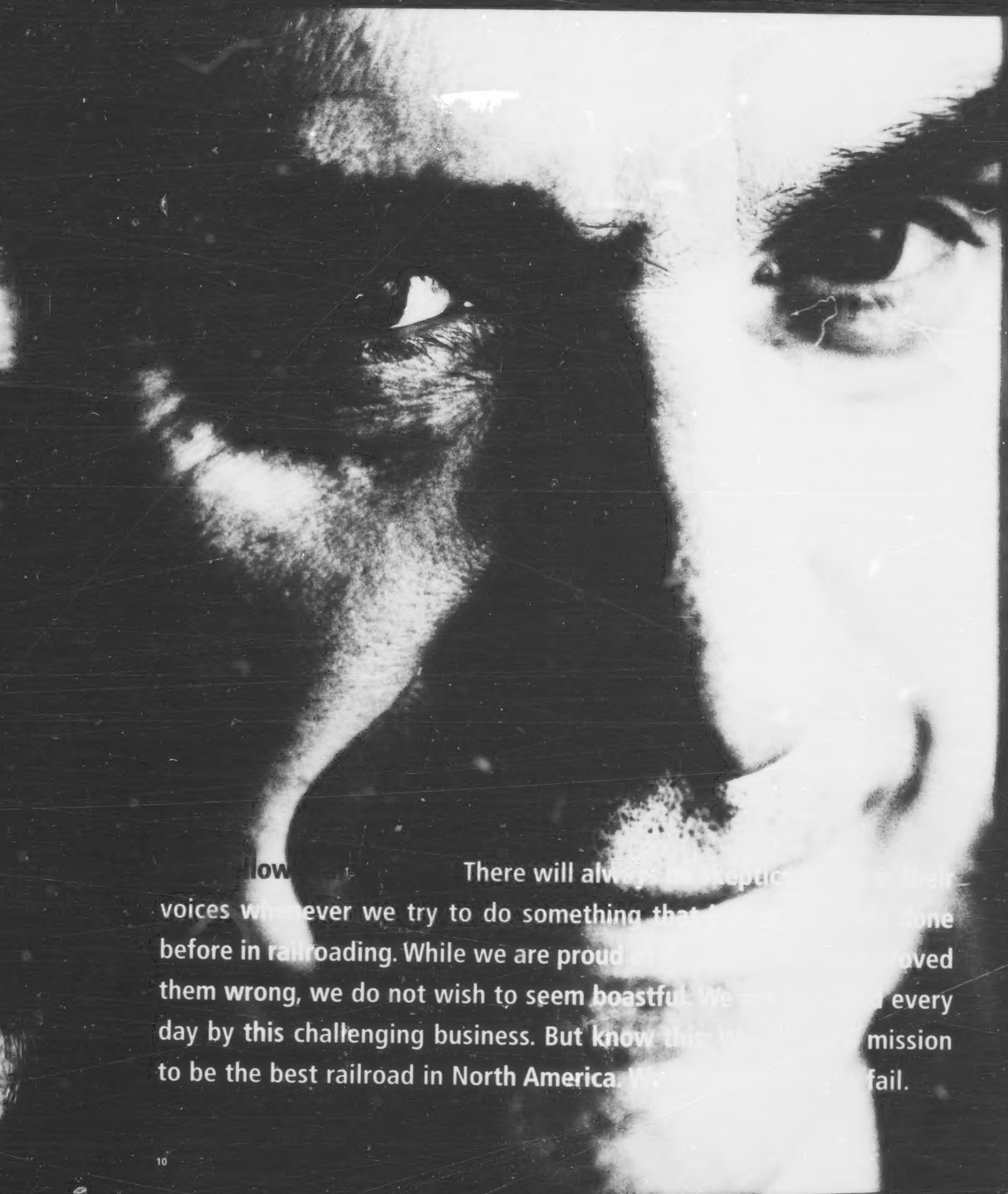
It's time to change their thinking.

This is a journey, not a destination.

This is a continent, not just a country.

This is a transportation solution, not a railroad.

This is what we're doing.



[illegible]llow [illegible] There will always [illegible] skeptics [illegible] their voices whenever we try to do something that [illegible] done before in railroading. While we are proud [illegible] proved them wrong, we do not wish to seem boastful. We [illegible] every day by this challenging business. But know this [illegible] mission to be the best railroad in North America. [illegible] fail.

Five years of achievement On November 17, 2000, CN celebrated the fifth anniversary of its initial public offering. It was a moment for all of us to pause and reflect on our accomplishments – the most successful privatization in Canadian history; going from worst to first among railroads in operating ratio and other performance measures; successfully completing the merger between CN and Illinois Central with virtually no disruption of service to our customers; achieving our goal to become a scheduled railroad. It was a moment to be proud of the hard work, tough decisions and team play that took us to this point. But it was just that – a moment. There is much work left to be done.

Our goal: to be the best When we started this journey, we established the goal to become the best railroad in North America. Let's review for a moment what that means. In the simplest of terms, it means being better than any other railroad at serving our customers. But our definition also includes being the safest railroad on the continent. It means being the best financial performer. It means being the best rail company investment for shareholders. And it means being the best place to work.

But remember, achievement of any of these objectives is fleeting. At any given moment, a stalled shipment, a serious train accident, a bad quarter or an employee falling short of his or her potential can cause us to lose ground. That is why we look at each goal as a journey rather than a destination. It is why we can never let up, not even for a moment. And it is why, as the leader of this company, I am never satisfied. The job is not done. In many ways, it never will be.

A bump in the road As most of you know, on December 20, 1999, CN announced a combination agreement between the company and the Burlington Northern Santa Fe railroad to become the largest and most customer-focused rail carrier in North America. It was an exciting development for our investors, our customers and our employees; not so exciting for our competition, who successfully prevailed upon the U.S. Surface Transportation Board (STB) to impose a 15-month moratorium on considering combinations like the one we were proposing.

Understandably, the delay was an unacceptable risk for CN and BNSF investors, so we agreed to cease pursuing our combination and unwind the transaction. I remain absolutely convinced that the CN/BNSF combination would have been good for shippers and the industry. But it wasn't to be. We were disappointed, but we have moved on.

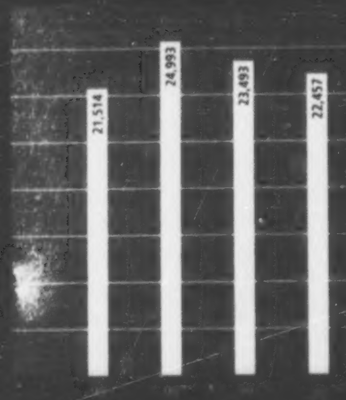
What's next Our strategy hasn't changed. Since the beginning, we have sought to extend our network to open new markets and improve shippers' competitiveness. On January 29, 2001, when we entered into a merger agreement providing for the acquisition of Wisconsin Central Transportation Corporation (WC), we took a step that will help assure we can continue to pursue that strategy. While this is a minor transaction, it is a natural fit for CN, an end-to-end combination that, if approved by the STB, secures CN's North American network.

The transaction makes good business sense for both CN and WC. The management of WC needed a strong financial partner. For CN, we gain operational control over an important growth corridor and this deal will increase our overall company revenues by 10 per cent. Together WC and CN will be a stronger transportation partner for all our customers.

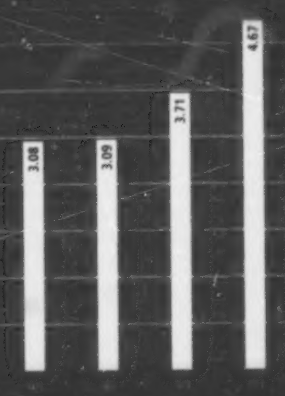
On another front, we have continued, and will always continue, to refine our operations to maximize the benefit our unique service plan brings to shippers – making CN faster and more reliable than ever. Our next push is to make it easier for shippers to do business with us, to simplify the often daunting complexity of shipping by rail. Because we want to become more than the best railroad on the continent, we want to be the best *transportation solution.*

Currently, trucks dominate the North American transportation industry with approximately 75 to 80 per cent of the market share based on freight revenues. With the levels of speed and reliability the service plan is giving us, we think we can drive significant quality revenue growth by taking market share from trucks. Rail transportation is more fuel efficient, is safer and has less impact on our environment. We have a great product to sell, and we're making it better than anyone in the rail

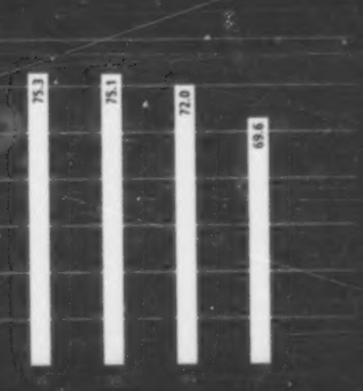
Employees



Earnings per share



Operating ratio
(excluding special charge)



Financial results

$ in millions, except per share data, or unless otherwise indicated	2000	1999	1998	1998
Revenues	$ 5,428	$ 5,236	$ 5,137	$ 4,078
Operating expenses excluding special charge	3,780	3,769	3,856	3,070
Special charge	–	–	590	590
Operating income	1,648	1,467	691	418
Operating income excluding special charge	1,648	1,467	1,281	1,008
Interest expense	311	314	331	242
Other income	136	55	23	122
Income before cumulative effect of changes in accounting policy	937	746	253	224
Income before cumulative effect of changes in accounting policy excluding special charge	937	746	598	569
Net capital expenditures	958	936	967	744
Diluted earnings per share before cumulative effect of changes in accounting policy	4.67	3.71	1.31	1.21
Diluted earnings per share before cumulative effect of changes in accounting policy excluding special charge	4.67	3.71	3.09	3.08
Rail operating ratio excluding special charge (%)	69.6	72.0	75.1	75.3

industry ever thought possible. CN has an unprecedented opportunity to redefine rail transportation by reaching unheard-of levels of service quality for a railroad. We are pursuing a variety of strategies to realize that opportunity and convert it to top-line growth and shareholder value.

Excellent 2000 financial results I am pleased to report another year of record financial performance for CN in 2000. Excluding non-recurring items, we posted net income of $879 million in 2000, improving upon 1999's $746 million by 18 per cent. Excluding non-recurring items, diluted earnings per share were $4.39, an increase of 18 per cent when compared with the $3.71 we achieved in 1999. CN grew operating income in 2000 as well, reaching $1,648 million, which represents a 12 per cent increase over the $1,467 million we reported to you in 1999.

CN's revenue performance for 2000 was solid: $5,428 million, 4 per cent better than 1999's revenues of $5,236 million. Through strong cost control discipline, CN managed its expenses well during 2000 while handling 5 per cent higher traffic volumes than in 1999 and sharply higher fuel costs. Operating expenses for the year were $3,780 million, an increase of less than one per cent over 1999 expenses of $3,769 million. Consequently, CN met its goal with an operating ratio of 69.6, an improvement of 2.4 points over the 72.0 achieved in 1999. This was again the best operating ratio of all Class 1 railroads.

Improved safety performance After a disappointing 1999 in the area of safety performance, I said we must do much better. Our people responded, and we returned to our position as one of the safest of North American Class 1 railroads. In 2000, CN reduced personal injuries by 24 per cent, posting an injury frequency rate of 5.5 injuries per 200,000 person hours (U.S. Federal Railroad Administration (FRA) reporting basis), compared with 7.3 injuries in 1999. CN also reduced train accidents by 5 per cent, finishing the year with an accident rate of 2.1 accidents per million train miles (FRA reporting basis). Safety is a preoccupation with me – it is one of my most important goals as the leader of this company to make sure it is a preoccupation with every one of our employees, because all it takes is one moment of carelessness to cost lives. CN will continue to work hard to sustain and improve performance in this area.

The year 2001 will mark an important milestone for us with regards to our involvement in Responsible Care®, the initiative started by the chemical industry to promote safety, environmental consideration and community outreach. CN will be the subject of a Responsible Care® verification by the Canadian Chemical Producers' Association. Since joining the initiative in 1998, CN has been committed to abiding by the codes of practice of the program not only in the transportation of dangerous goods, but in all aspects of its operations.

IC integration completed With the final changeover of all IC information systems to CN's SRS system on October 1, 2000, we concluded the careful step-by-step process of integrating IC into our railroad. The merger is now entirely complete. The changeover proceeded efficiently and effectively without the kinds of service disruptions that have plagued mergers between other Class 1 railroads.

The merger of CN and IC is a success story. The CN-IC combination has lived up to the projections made in the application to the Surface Transportation Board; in fact, the company has exceeded those projections in virtually every instance. As promised, the CN-IC merger has resulted in an efficient new single-line service alternative for shippers. Since the merger, CN has seen improved reliability, reduced transit times and more efficient use of assets. A new, customer-focused organizational structure was designed and implemented to achieve the goals of the combined CN-IC. Throughout the integration process, CN has maintained positive relations with labor unions representing employees at CN and IC. Safety has not been compromised. A low-risk, phased approach to systems integration with one major objective – no disruption of service – helped ensure a smooth transition to a single information system. The result of the merger of CN and IC after one year is excellent service and strong financial performance.

Building a culture of performance In October 2000, CN announced the promotion of two of its most talented people, Claude Mongeau and James Foote, to new executive positions. Mongeau, 39, assumed the role of Executive Vice-President and Chief Financial Officer, and Foote, 46, became Executive Vice-President, Sales and Marketing. Like Hunter Harrison, these two embody the qualities in our people that have made CN so successful – they are creative thinkers, they work very hard and they are totally committed to performing above all expectations.

I believe the type of leadership Hunter, Claude and Jim exhibit is something we want to develop and encourage throughout our organization. Because I am personally convinced that the success of our company going forward will depend on the contributions of everyone at CN, we are constantly working at ways to help our employees improve their skills and to become a company they can be proud to work for. That means caring about our employees' career development and appreciating what they do. It also means motivating them to be the best they can be.

In 2000, CN introduced a new compensation plan for account managers designed to encourage and provide greater financial rewards for sales excellence. It is unique in our industry – providing performance bonuses twice rather than once per year; tying compensation closely to individual performance against goals. The result? CN's best sales performers are making more than ever, and those who have not reached their potential are given a financial motivation to do better.

Looking ahead Over the next year, we will work to grow our top line, increase market share and serve customers better than anyone else. We will continue to refine our offerings and improve service performance to bring the maximum benefit of our unique service plan to shippers. And we will continue to explore new opportunities to extend geographic reach to open new markets for customers and bring value to our shareholders.

Thank you Each year I am struck by how important the contributions of everyone connected to our organization are to our success – our employees, our board of directors, our shareholders and, of course, our customers. I wish to thank you all for participating in the creation of a truly different kind of railroad. It was another excellent year and – I say this with the utmost confidence – we are far from finished. The best is yet to come.

Yours sincerely,

Tellier

Paul M. Tellier
President and Chief Executive Officer

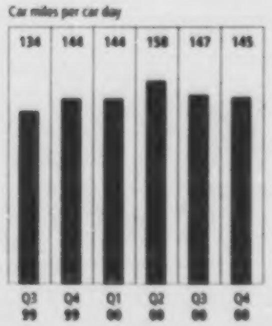
Faster

Increasingly, shippers of time-sensitive, high-value goods are looking for faster service from dock to dock, an area where trucks traditionally have had an advantage over trains. The service plan has enabled CN to change that.

Unlike other Class 1 rail carriers, the service plan enables us to plan, not just react. CN's scheduled network gives us the precision we need to tighten connections, adjust schedules and make other refinements on an ongoing basis to increase velocity and reduce transit times.

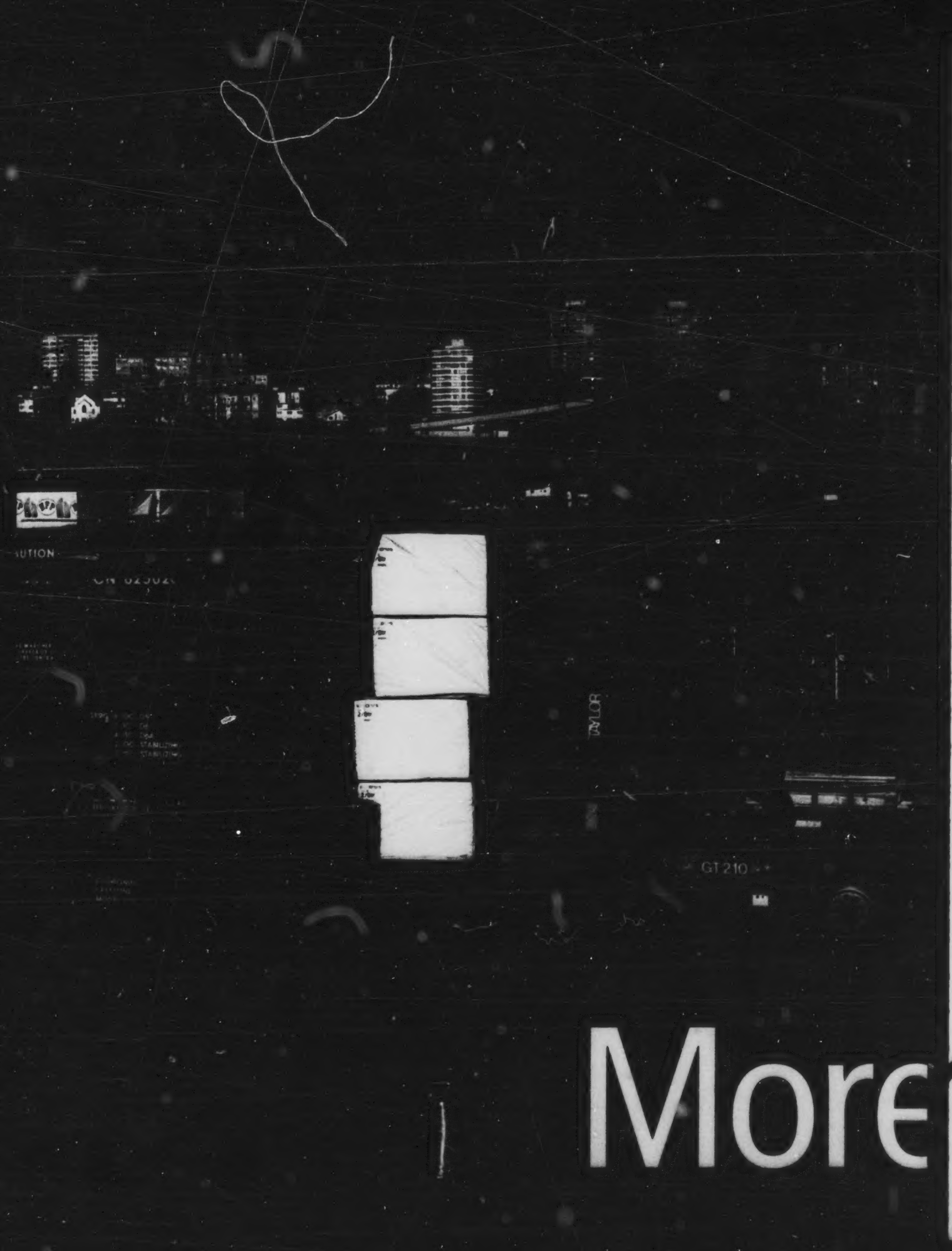
In CN's unique scheduled railroad philosophy, a train that's moving is creating revenue; one that's standing still is costing money. Increased speed improves productivity in CN's fleet – the faster our network velocity, the shorter our car turns, the higher percentage of our cars that are moving at any given time. As a result, CN can reduce costs while improving service and generating revenue.

Average car velocity



Taking it to the market:
Expedited intermodal train service

Take the fast track. That's what CN's new expedited intermodal train service enables customers to do, thanks to redesigned schedules that cut transit times both ways between Toronto and major western Canadian cities – and, in early 2001, between Chicago and Vancouver – by as much as 24 hours; between Toronto and key destinations in the east by as much as six hours. To maximize value, the service offers late-in-the-day cutoff times at origin and early morning delivery at destination. CN's expedited shipping offers North America's only truly truck-competitive intermodal rail service to transcontinental destinations.



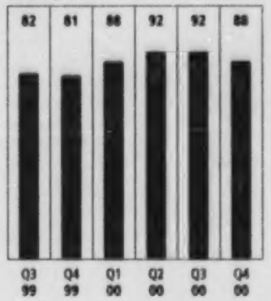
More reliable

Taking it to the market:
Guaranteed car supply program

After a successful two-month pilot project with select customers, in September 2000 we launched a first-of-its-kind program that guarantees timely arrival of empty cars with per-car financial penalties to CN if we fail to deliver. Initially the program applies to our 4,200-car centre-beam flat car fleet used primarily for lumber; we expect to expand it to include the entire CN fleet – boxcars, flat cars and gondolas – by mid-2001. The program adds further value by offering guaranteed car ordering online.

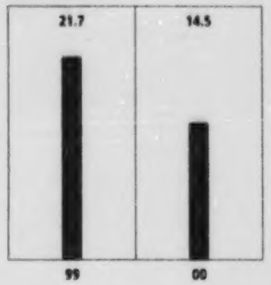
Trip plan compliance – carload traffic

Percentage on-time



Total freight claims – year to year

Dollars in millions



With more and more companies using just-in-time supply and inventory management techniques, service reliability is becoming increasingly critical. Shipments must arrive on time with clockwork-like consistency or the negative impact on business is immediate and significant.

The CN service plan enabled us in 2000 to increase dock-to-dock trip plan compliance percentage to 90 per cent for time-sensitive customers – and by analyzing in-jeopardy cars, we're always identifying process or schedule adjustments to further improve on-time performance. At the originating end, reliability has another measure. Reliability also means getting timely and consistent delivery of empty cars to ensure effective management of the supply chain.

Getting the shipment to destination in good condition is still another part of reliability. Success in this area comes largely from a direct by-product of the service plan – a modern, well-maintained fleet and rail network that protects cargo while reducing the number and severity of rail accidents.

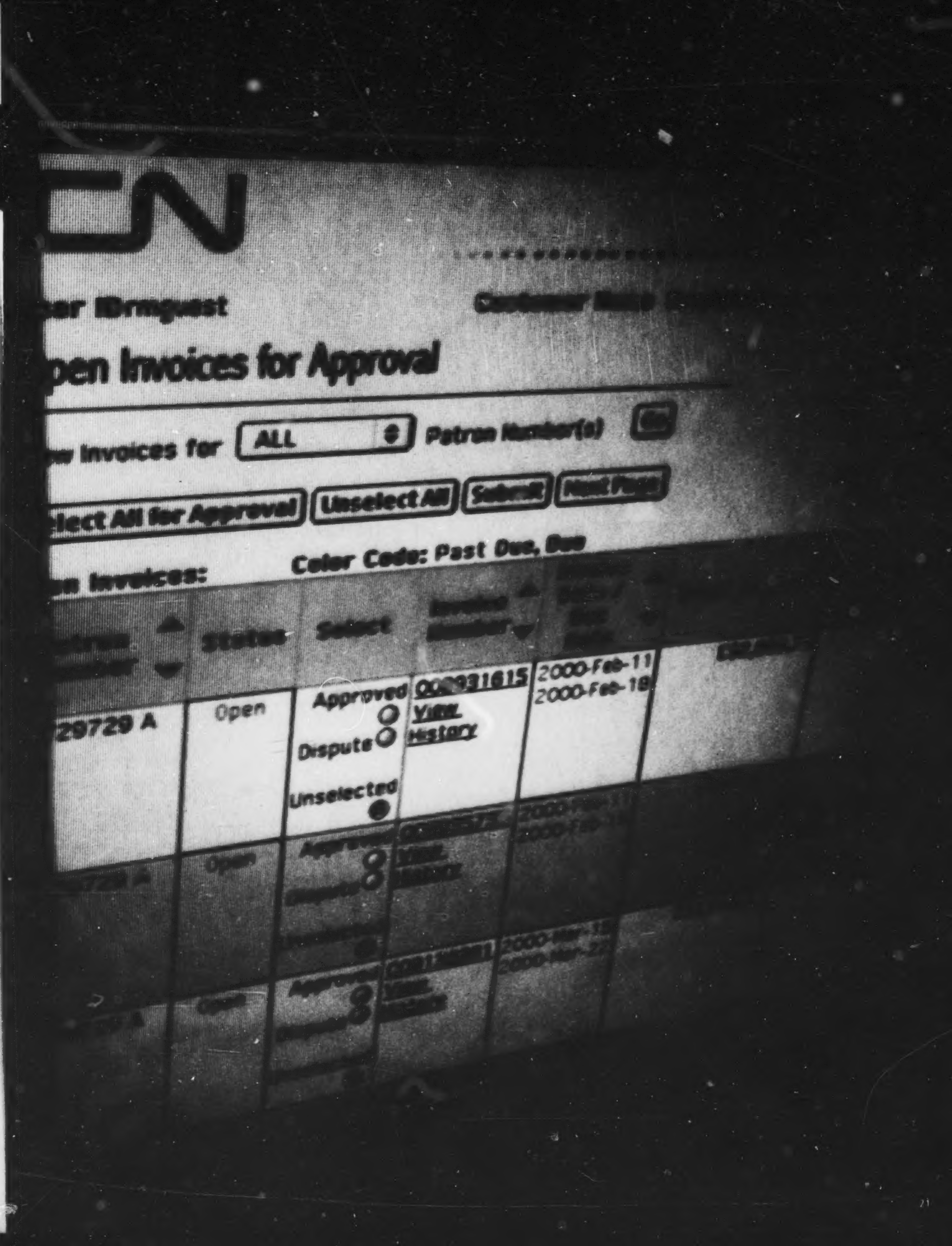
Easier

Rail transportation has historically been slower, less reliable and more difficult to deal with than trucks. The CN service plan makes us as fast and reliable as trucks in an increasing number of corridors. Our objective now is to make rail shipping as easy as moving goods over the highways – just as simple to get information and pricing, to initiate and track a shipment, or to coordinate invoicing and payment.

If service quality is lacking, the ability to order on the Internet is of little or no value. With the service plan, we've accomplished product quality that leads the industry. Now we're devoting the resources necessary to do what no railroad has done before – dramatically simplify the entire process of shipping by rail.

Taking it to the market:
eBill-Payments

Click to review a freight invoice. Click to approve. Click to authorize. And then, click to pay. With eBill-Payments, CN's new electronic freight bill presentation and payment capability, managing freight shipping payables has just become much easier for customers. eBill-Payments has an electronic dispute resolution feature that is a first among railroads, enabling most issues to be addressed and resolved, online, within 48 hours. The eBill-Payments application allows shippers to maintain their own controls – and it's available for both Canadian and U.S. shippers, another industry first.



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Morecompetitive

Taking it to the market:
CN's better idea for Ford

When Ford / UPS Autogistics looked to improve vehicle transit, they needed creative thinking, fresh ideas and quick action. CN delivered on all three. Thanks to the IC merger and KCS alliance, CN was able to move Ford vehicles through Chicago for the Kansas City market and destination in the western US. Other innovations included unit trains from Ontario to Jackson, Mississippi, and shipments of vehicles from Flat Rock, Michigan, through Canada utilizing the Buffalo gateway to the Northeast. This contributed in CN being awarded the Outstanding Rail Performance Award for 2000 by UPS Autogistics, Ford's logistics partner.

What's the net result of becoming faster, more reliable and easier to do business with? A CN that's more competitive, able to drive quality revenue growth by taking business not only from other railroads but also from trucks, a market with much greater potential. With the service plan, we have created a new option for transportation services. Faster, more consistent, increasingly more simple – and therefore more valuable – than conventional rail. As fast, as reliable and as easy as trucks – but at a lower cost.

We have become a different kind of railroad. Unstoppable in our drive to set new standards for rail service quality; unstoppable in our passion to redefine transportation choice for North American shippers; unstoppable in our commitment to transform an entire industry.

As unstoppable as a locomotive. We're CN, and by focusing on serving customers better than ever, we're succeeding by making *them* more competitive.

CN at a glance

CN derives revenue from seven business units – a balanced mix of goods moving over a network that spans North America. CN's is the only rail network on the continent to connect three coasts – the Pacific, the Atlantic and the Gulf of Mexico.

Petroleum and chemicals

Petroleum and chemicals comprise a wide range of commodities, including chemicals, plastics, petroleum and gas products. Most of CN's petroleum and chemical shipments are destined for customers in Canada via CN's eastern and western corridors to the Chicago gateway, and in the United States via CN's north-south route starting at the Gulf of Mexico.

Metals and minerals

CN's metals and minerals business consists primarily of nonferrous base metals, steel, equipment and parts. Exclusive access to major mines and smelters throughout North America makes CN a leader in the transportation of copper, lead, zinc concentrates, refined metals and aluminum.

Forest products

CN is the largest carrier of forest products in North America. This is CN's second-largest business unit, comprising a broad spectrum of products and meeting a wide range of customer requirements. The product lines include various types of lumber, panels, wood chips, wood pulp, pulpwood, printing paper, linerboard and newsprint. In Canada, CN enjoys superior access to the major fiber-producing regions that have positioned Canada as the world's largest exporter of forest products. In the United States, CN is strategically located to serve both the northern and southern U.S. corridors with interline capabilities to other Class 1 railroads.

Coal

CN's Canadian coal business consists of thermal and metallurgical grades of coal moved in Canada for export to Asian markets. In the United States, CN's coal business consists primarily of thermal coal and moves from mines served by CN in southern Illinois and from western mines via Class 1 connections, to major utilities in the U.S. Midwest and Southeast.

Grain and fertilizers

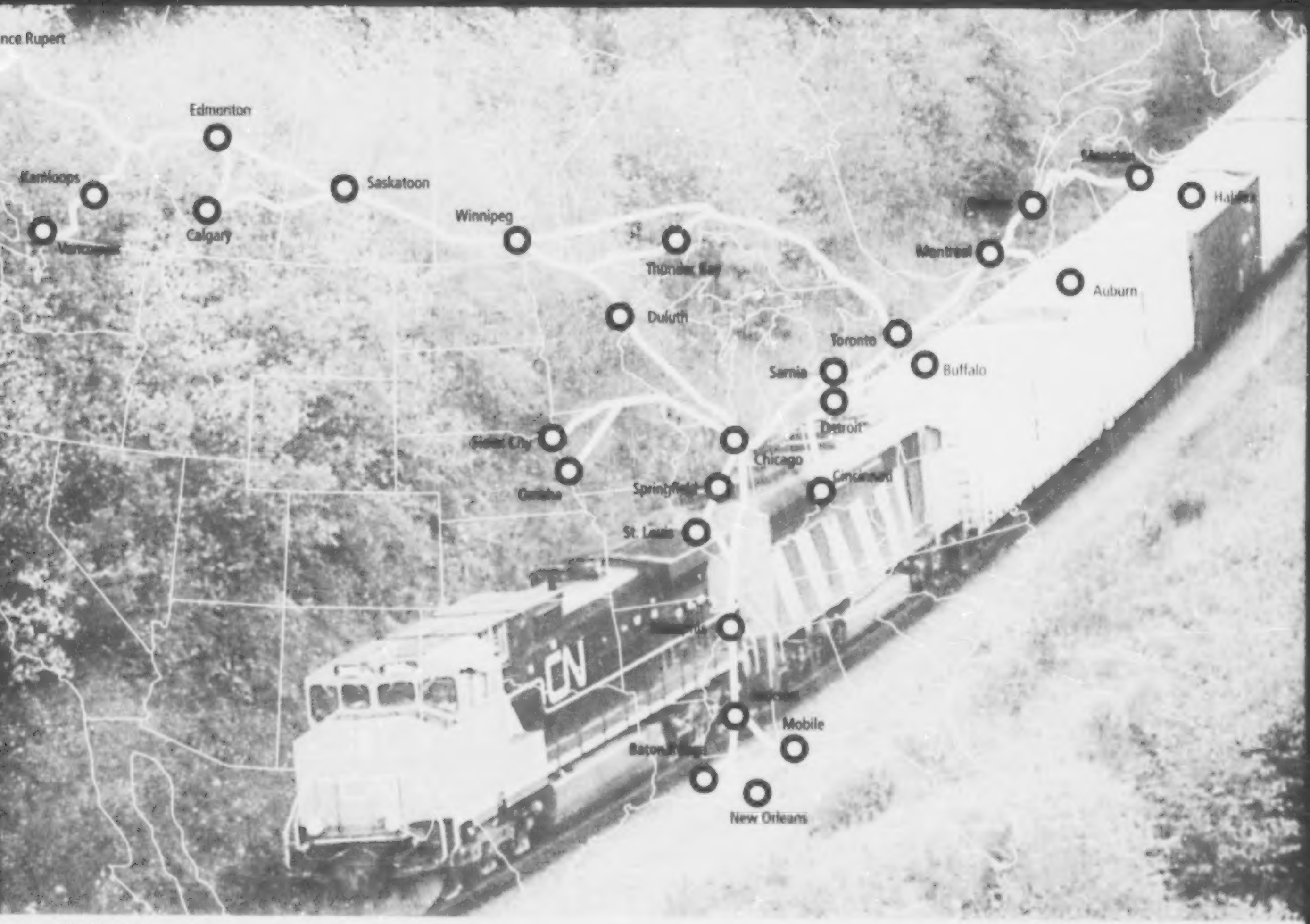
CN's grain and fertilizer business unit derives revenues primarily from transporting commodities grown in western Canada and the U.S. Midwest. The majority of grain and grain products produced in Canada and carried by CN are for export through the west coast ports of Vancouver and Prince Rupert or through Thunder Bay on Lake Superior. In the United States, CN handles grain grown in Illinois and Iowa for export through center Gulf ports and to barge loading facilities located on the river system, as well as to domestic processing facilities and feed markets. CN also serves producers of potash, ammonium nitrate, urea and other fertilizers.

Intermodal

CN's intermodal business consists of two product segments. The first segment, domestic, is responsible for consumer products and manufactured goods, operating through both retail and wholesale channels. The second, the international segment, handles import and export container traffic, serving the ports of Vancouver, Montreal, Halifax, Mobile and New Orleans.

Automotive

CN is a leading carrier of automotive products originating in southwestern Ontario and Michigan. This business unit moves both finished vehicles and parts within the United States, Canada and Mexico. CN also serves shippers of import vehicles via the ports of Halifax and Vancouver, and through interchange with other railroads.


nce Rupert
Edmonton
Kamloops
Saskatoon
Vancouver
Calgary
Winnipeg
Thunder Bay
Duluth
Halifax
Montreal
Auburn
Toronto
Sarnia
Buffalo
Detroit
Sioux City
Chicago
Omaha
Springfield
Cincinnati
St. Louis
Mobile
Baton Rouge
New Orleans

Statistical summary

	2000	1999	1998 Pro forma[1]	1998
Route miles *(includes Canada and the U.S.)*	**15,532**	15,777	16,911	13,741
Carloads *(thousands)*	**3,796**	3,645	3,483	2,456
Gross ton miles *(millions)*	**288,150**	274,488	263,470	216,501
Revenue ton miles *(millions)*	**149,557**	143,613	138,669	112,929
Rail employees *(average for the year)*	**22,457**	23,493	24,993	21,514
Diesel fuel consumed *(liters in millions)*	**1,292**	1,250	1,291	1,064
Diesel fuel consumed *(U.S. gallons in millions)*	**341**	330	341	281
Average fuel price per liter *(dollars)*	**$ 0.33**	$ 0.23	$ 0.23	$ 0.24
Average fuel price per U.S. gallon *(dollars)*	**$ 1.24**	$ 0.87	$ 0.87	$ 0.90

2000 data

Freight revenues	(In millions)
Petroleum and chemicals	$ 894
Metals and minerals	392
Forest products	1,008
Coal	328
Grain and fertilizers	1,136
Intermodal	919
Automotive	559

Revenue ton miles	(In millions)
Petroleum and chemicals	24,858
Metals and minerals	9,207
Forest products	28,741
Coal	15,734
Grain and fertilizers	42,396
Intermodal	25,456
Automotive	3,165

Freight revenue per revenue ton mile	(In cents)
Petroleum and chemicals	3.60
Metals and minerals	4.26
Forest products	3.51
Coal	2.08
Grain and fertilizers	2.68
Intermodal	3.61
Automotive	17.66

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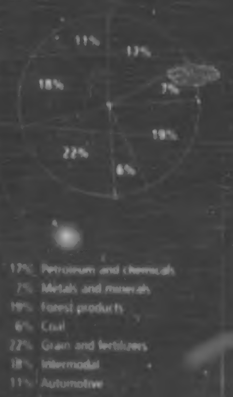
(1) Pro forma refers to the consolidation of the financial and statistical data of Illinois Central Corporation (IC) assuming the acquisition and control of IC occurred on January 1, 1998.

Freight revenues

2000 percentage data



Chairman's message

Dear fellow shareholders: November 17, 2000 marked the fifth anniversary of the initial public offering of Canadian National. Many positive things have occurred during those five years under the inspiring leadership of President and Chief Executive Officer, Paul Tellier, and during the past three years, Executive Vice-President and Chief Operating Officer, Hunter Harrison.

Today CN is the most efficiently managed railroad in North America, and it is steadily improving each year. We are proud of all the employees at CN and IC who have contributed in countless ways to these achievements.

While we were disappointed that our combination agreement with BNSF could not be implemented, CN remains very alive to new growth opportunities to expand our franchise throughout North America.

Last year, CN donated its extensive photo archives collection to the people through a gift to the Canada Science and Technology Museum in Ottawa. These photos represent an important record of the past, vividly depicting the growth of two great countries through the development and expansion of railroads in North America. It illustrates a time in our history when the very challenging terrain was made accessible by train before other modes of transportation were possible, a time when railroads truly served to knit the continent together. We are pleased we were able to make this important collection available to the public.

The year 2001 marks the 150th anniversary of the Illinois Central Railroad. This railroad is rich in history and tradition, from Abraham Lincoln to Samuel Clemens, and it represents a vital link in the transportation system of the United States. We look forward to celebrating this important milestone in the history of IC during the coming year.

During 2000 one of our Directors, Dr. Edward Neufeld, retired from our Board, and I join with all my fellow Directors in acknowledging the important contribution he made to our Board during the past five years. He was one of the original Directors present during the IPO and his wise counsel will be missed.

As we look to the future, we see CN as a vital and emerging force in the North American transportation system. There are many challenges ahead, and we are confident we are well positioned for the new millennium.

To my fellow Directors, I am deeply grateful for your conscientious attention to the company's business and for your continued enthusiastic support for all our new initiatives.

To our shareholders, we appreciate your loyalty and your continued support as we endeavor always to increase shareholder value. Together we are building an enterprise that is the best that it can be.

Sincerely,

David McLean

David McLean, O.B.C., LL.D.
Chairman of the Board

While CN's history as a public company is relatively short, its history as a railroad is long. CN is proud of its heritage, a great tradition of moving goods and, for a time, people, into a bright future. We are pleased to celebrate that tradition with the donation of our extensive photo archive – spanning nearly 150 years of progress – to the Canada Science and Technology Museum.

David McLean, *Chairman of the Board*

Horse-drawn equipment used to build railway roadbed; Tranquille, British Columbia, circa 1910

A gift of histo

There was a time when hope rode the rails.

A time when North America still was new, full of undeveloped potential and yet-to-be-realized dreams.

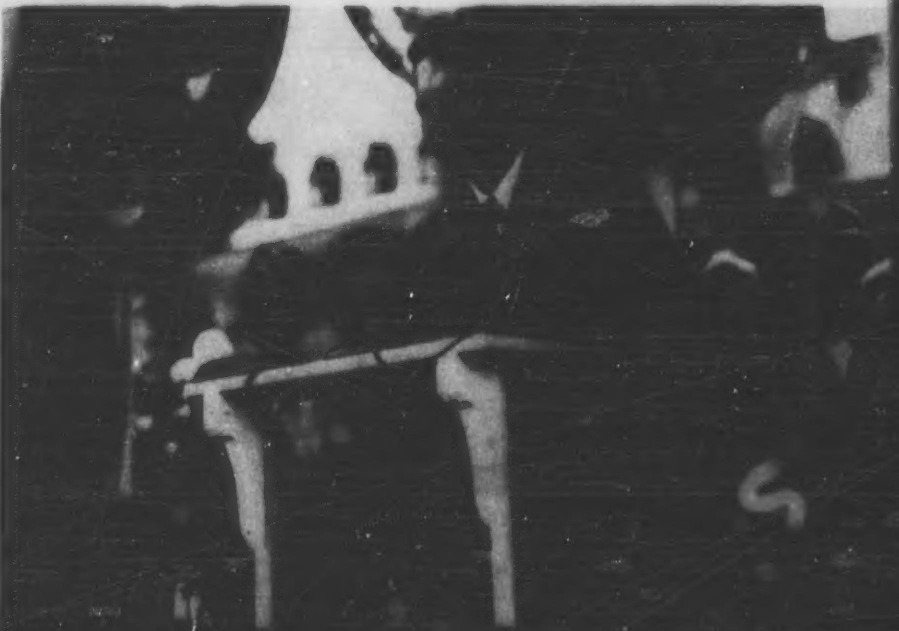
A time when the continent's greatest cities were young, when the telegraph was the latest technology, when railroads were the principal movers of goods and people across a changing landscape.

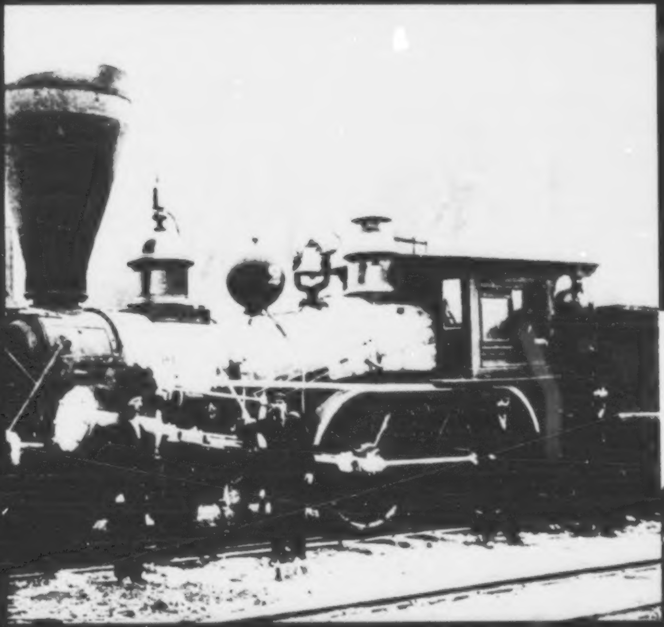
We've come a very long way since that time, and CN's extensive photo library bears witness to countless moments during the journey. Dating back to the 1850s, CN's photo collection presents a fascinating visual history of the rail industry in Canada and the United States – a unique and priceless record of the economic, social, cultural and technological evolution of a continent. If a picture is worth a thousand words, CN's million-image collection does the work of a billion-word essay.

In May 2000, CN donated its historical photo library to the Canada Science and Technology Museum, which is making an ever-increasing selection of images available for viewing over the Internet.

Together Canada and the United States have a great heritage, and we are proud of the part CN has played in it. Donating our photographic collection was the best way we knew to share and preserve CN's illustrious past while we continue to work on building its future.

Aviation hero Charles Lindbergh's remarks at Canada's Diamond Jubilee celebration were heard on CN radio – the first national radio broadcast in Canada; Ottawa, Ontario, July 1, 1927





First steam locomotive built in Canada: "Toronto," the Northern Railway of Canada's locomotive no. 2, Toronto, Ontario, circa 1874

A prairie grain farmer adds twine to his binder, a horse drawn machine that cut and bound wheat stalks into sheaves, near Wainwright, Alberta, circa 1924

View selected images from the collection in the history section at CN's web site: www.cn.ca/history

Immigrant families coming into Canada, Winnipeg, Manitoba, circa 1925

General Dwight Eisenhower and the Honorable Angus L Macdonald, Premier of Nova Scotia, en route to SS Queen Mary, Halifax, Nova Scotia, 1946

In 2000, we marked the fifth year of CN's remarkable turnaround in financial performance as a publicly traded company. The turnaround has been the result of fundamental changes in the way we run and drive the business. To thrive in a highly capital-intensive industry, we have substantially improved the flexibility of our cost structure, sharply increased our focus on asset productivity and instilled a pervasive bottom-line discipline throughout the organization.

Today, CN is a more resilient company, strongly focused on customer service. With this discipline and focus, CN has been able in 2000 to earn a return on investment that is in line with its cost of capital, a key indicator of financial health. These achievements have driven significant shareholder value creation, with the market capitalization of the firm up fivefold since the IPO.

With CN clearly in an industry-leading position, our challenge going forward is to keep up the momentum. We know that financial health is a long-term requirement that has to be maintained over the whole business cycle, not just for a year or two. Given the prospects of a slowing economy in 2001, we must reach out and bring performance to the next level of excellence. The challenge is real, but I am confident that CN has the resources and the commitment to deliver.

I invite you to review the details of CN's results in our financial statements for 2000. I trust you will conclude that these results provide a solid foundation for the future, offering the potential for continued value creation.

Sincerely,

Claude Mongeau
Executive Vice-President and Chief Financial Officer

Selected Railroad Statistics

Year ended December 31,	**2000**	1999	1998 Pro forma[1]	1998
Rail operations				
Freight revenues *($ millions)*	**5,236**	5,032	4,952	3,943
Gross ton miles *(millions)*	**288,150**	274,488	263,470	216,501
Revenue ton miles (RTM) *(millions)*	**149,557**	143,613	138,669	112,929
Route miles *(includes Canada and the U.S.)*	**15,532**	15,777	16,911	13,741
Operating expenses (excluding the 1998 special charge) per RTM *(cents)*	**2.53**	2.62	2.78	2.72
Freight revenue per RTM *(cents)*	**3.50**	3.50	3.57	3.49
Carloads *(thousands)*	**3,796**	3,645	3,483	2,456
Freight revenue per carload *($)*	**1,379**	1,381	1,422	1,605
Diesel fuel consumed *(liters in millions)*	**1,292**	1,250	1,291	1,064
Average fuel price *($/liter)*	**0.33**	0.23	0.23	0.24
Revenue ton miles per liter of fuel consumed	**116**	115	107	106
Gross ton miles per liter of fuel consumed	**223**	220	204	203
Diesel fuel consumed *(U.S. gallons in millions)*	**341**	330	341	281
Average fuel price *($/U.S. gallon)*	**1.24**	0.87	0.87	0.90
Revenue ton miles per U.S. gallon of fuel consumed	**439**	435	407	402
Gross ton miles per U.S. gallon of fuel consumed	**845**	832	773	770
Locomotive bad order ratio *(%)*	**6.0**	6.8	7.8[2]	7.8
Freight car bad order ratio *(%)*	**5.1**	5.4[2]	3.4[2]	3.4
Productivity				
Operating ratio (excluding the 1998 special charge) *(%)*	**69.6**	72.0	75.1	75.3
Freight revenue per route mile *($ thousands)*	**337**	319	293	287
Revenue ton miles per route mile *(thousands)*	**9,629**	9,103	8,200	8,218
Freight revenue per average number of employees *($ thousands)*	**233**	214	198	183
Revenue ton miles per average number of employees *(thousands)*	**6,660**	6,113	5,548	5,249
Employees				
Number at end of year	**21,378**	21,563	22,653	19,198
Average number during year	**22,457**	23,493	24,993	21,514
Labor and fringe benefits expense per RTM *(cents)*	**0.99**	1.05	1.14	1.14
Injury frequency rate per 200,000 person hours	**5.5**	7.3	6.8	7.5
Accident rate per million train miles	**2.1**	2.2	2.3	1.4
Financial				
Debt to total capitalization ratio *(% at end of year)*	**41.4**	42.7	45.0[2]	45.0
Return on assets *(% at end of year)*[3]	**6.5**	5.7	5.9[2]	5.9

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[1] Pro forma refers to the consolidation of the financial and statistical data of Illinois Central Corporation (IC) assuming the acquisition and control of IC occurred on January 1, 1998.
[2] Excludes Illinois Central Corporation.
[3] Income before cumulative effect of changes in accounting policy, adjusted to exclude the 1998 special charge.

Certain of the 1999 and 1998 comparative figures have been reclassified in order to be consistent with 2000 presentation.

Management's Discussion and Analysis

Management's discussion and analysis relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including Grand Trunk Corporation and Illinois Central Corporation (IC). As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP).

Financial results

2000 compared to 1999

The Company recorded consolidated net income of $937 million ($4.81 per basic share) for the year ended December 31, 2000 compared to $751 million ($3.81 per basic share) for the year ended December 31, 1999. Diluted earnings per share were $4.67 for the current year compared to $3.74 in 1999.

The years ended December 31, 2000 and 1999 include items impacting the comparability of the results of operations. In 2000, the Company recorded a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share) related to the exchange of its minority equity investments in certain joint venture companies for common shares in 360networks Inc. The results of the comparable period include a $5 million after-tax ($0.03 per basic and diluted share) cumulative effect of changes in accounting policy.

Excluding the effects of the items discussed herein, consolidated net income was $879 million ($4.51 per basic share or $4.39 per diluted share) in 2000 compared to $746 million ($3.78 per basic share or $3.71 per diluted share) in 1999.

Operating income was $1,648 million for 2000 compared to $1,467 million in 1999. This represents an increase of $181 million, or 12%. The operating ratio in 2000 was 69.6% compared to 72.0% in 1999.

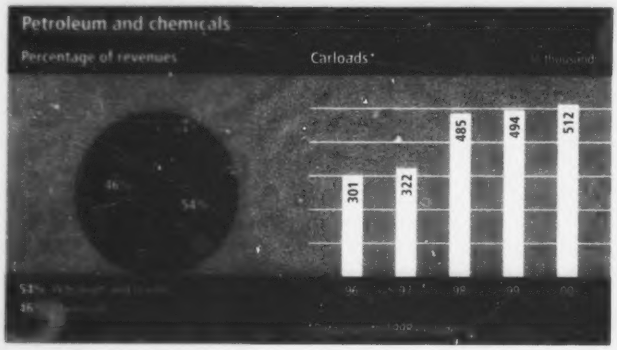
Revenues

Revenues for the year ended December 31, 2000 totaled $5,428 million compared to $5,236 million in 1999. The increase of $192 million, or 4%, was mainly attributable to gains in automotive, intermodal and grain and fertilizers. This was partially offset by lower coal revenues. Revenue ton miles increased by 4% as compared to 1999 while freight revenue per revenue ton mile remained flat.

Year ended December 31,	2000	1999	2000	1999	2000	1999
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	**$ 894**	$ 878	**24,858**	24,194	**3.60**	3.63
Metals and minerals	**392**	398	**9,207**	9,271	**4.26**	4.29
Forest products	**1,008**	995	**28,741**	27,500	**3.51**	3.62
Coal	**328**	402	**15,734**	18,645	**2.08**	2.16
Grain and fertilizers	**1,136**	1,066	**42,396**	38,681	**2.68**	2.76
Intermodal	**919**	810	**25,456**	22,589	**3.61**	3.59
Automotive	**559**	483	**3,165**	2,733	**17.66**	17.67
Other items	**192**	204	**–**	–	**–**	–
Total	**$5,428**	$5,236	**149,557**	143,613	**3.50**	3.50

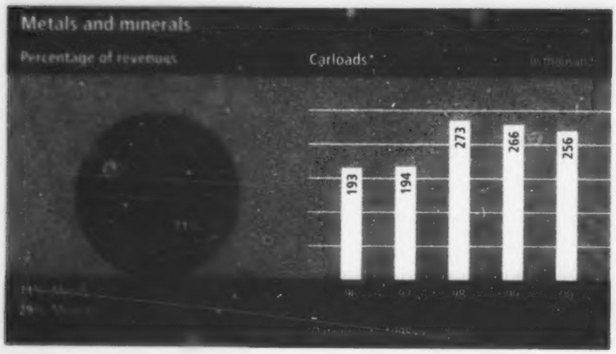
Petroleum and chemicals

Revenues for the year ended December 31, 2000 increased by $16 million, or 2%, over 1999. Growth for the year was mainly due to increased demand for petroleum gas, industrial chemicals and petrochemicals. Growth was also driven by increased production from plant expansions in the petroleum products segments. Weak market demand for polyvinyl chloride (PVC plastics) and related chemicals and sulfur exports to the United States partially offset these gains. The revenue per revenue ton mile decrease of 1% for the year was mainly due to changes in some contract and rate structures.


Petroleum and chemicals

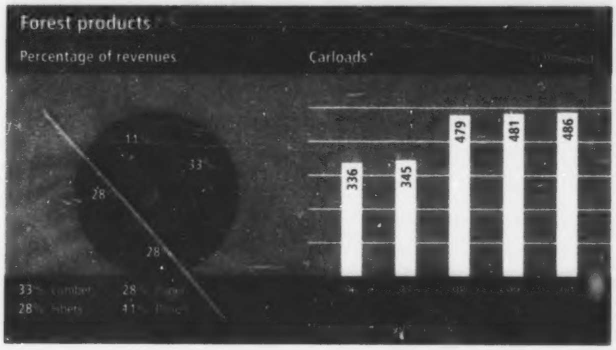
Metals and minerals

Revenues for the year ended December 31, 2000 decreased by $6 million, or 2%, as compared to 1999. The decline for the year reflects lower finished steel shipments due, in particular, to fewer pipeline projects in western Canada and customer production shutdowns in 2000. This is partially offset by market share gains in, as well as strength from, both the overall steel markets in the first half of 2000 and concentrate markets during the year. The revenue per revenue ton mile decrease of 1% for the year was mainly due to an increase in the average length of haul.


Metals and minerals

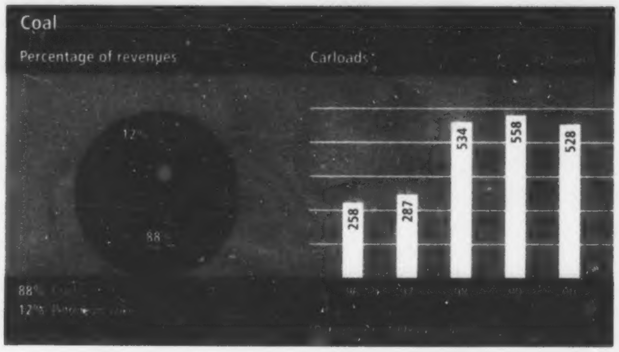
Forest products

Revenues for 2000 grew by $13 million over 1999, representing a 1% increase. Market share gains, as well as solid demand in the paper segment, drove growth in the year. Declining lumber shipments due to weaker commodity prices and fewer housing starts in the United States compared to 1999 partially offset these gains. The revenue per revenue ton mile decrease of 3% for the year can be attributed to an increase in the average length of haul. Rate pressure as a result of consolidations in the forest products industry was also a contributing factor.


Forest products

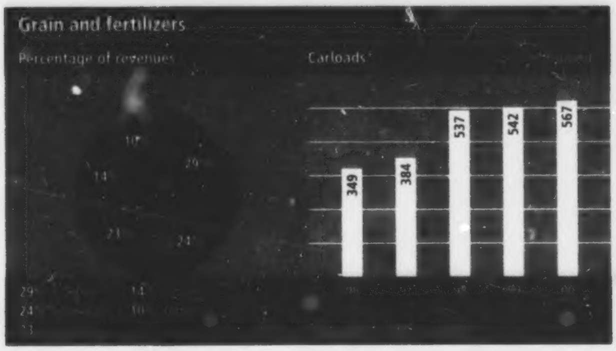
Coal

Revenues for the year ended December 31, 2000 decreased by $74 million, or 18%, from 1999. Continued weak market conditions for Canadian export coal resulted in lower shipments from, and closures of, certain CN-served coal mines. This was compounded by further rate reductions which were tied to coal prices. The revenue per revenue ton mile decrease of 4% for the year was mainly due to reduced freight rates tied to contracted coal prices.


Coal

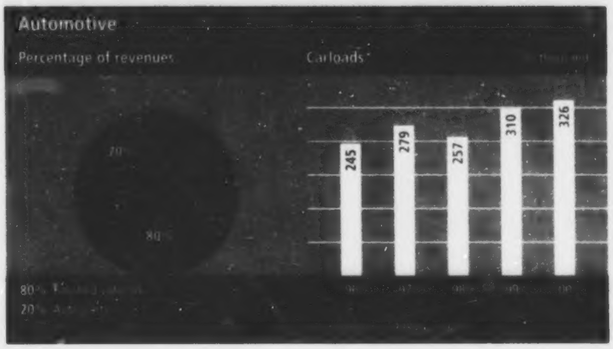
Grain and fertilizers

Revenues for 2000 increased by $70 million, or 7%, over 1999. The increase for the year was mainly driven by strong Canadian wheat and barley exports, as well as U.S. and Canadian oil seed exports. Revenue per revenue ton mile decreased by 3% for the year mainly due to a decline in grain rates in Canada and a shift to longer haul traffic.



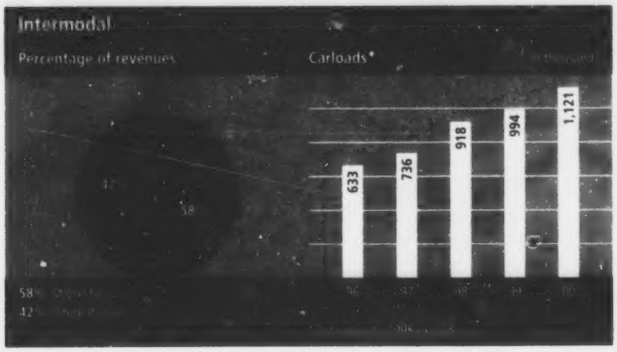
Automotive

Revenues for the year ended December 31, 2000 increased by $76 million, or 16%, over 1999. The increase in revenues for the year reflects strong North American vehicle sales during the first nine months of 2000 and market share gains due, in part, to competitors' service problems. The revenue per revenue ton mile for the year remained relatively unchanged despite an increase in the average length of haul, due to growth of higher yielding traffic.



Intermodal

Revenues in 2000 increased by $109 million, or 13%, in comparison to the year ended December 31, 1999. Increased container trade through the ports of Vancouver and Halifax and market share gains drove the growth in the international segment. The domestic segment benefited from strength in the North American economy as well as market share gains through enhanced service offerings. The revenue per revenue ton mile increase of 1% for the year is mainly due to a shift to higher yielding traffic.



Other items

Revenues for the year ended December 31, 2000 decreased by $12 million over 1999. The majority of the 6% decrease was attributable to a non-recurring branch line subsidy payment from the Canadian Transportation Agency (CTA) received in 1999 relating to a claim for unprofitable lines. This was partially offset by increased revenues in 2000 for commuter services.

Operating expenses

Operating expenses amounted to $3,780 million in 2000 compared to $3,769 million in 1999. Operating expenses remained relatively flat with an increase of only $11 million due predominantly to significantly higher fuel costs and depreciation, partially offset by reductions in all other expense categories.

Dollars in millions *Year ended December 31,*	2000		1999	
	Amount	**% of revenue**	Amount	% of revenue
Labor and fringe benefits	**$1,482**	**27.3%**	$1,509	28.8%
Purchased services	**551**	**10.2%**	569	10.9%
Depreciation and amortization	**525**	**9.7%**	490	9.3%
Fuel	**446**	**8.2%**	308	5.9%
Equipment rents	**285**	**5.2%**	328	6.3%
Material	**195**	**3.6%**	204	3.9%
Operating taxes	**158**	**2.9%**	172	3.3%
Casualty and other	**138**	**2.5%**	189	3.6%
Total	**$3,780**	**69.6%**	$3,769	72.0%

Labor and fringe benefits: Labor and fringe benefit expenses in 2000 decreased by $27 million, or 2%, as compared to 1999. The decrease was mainly attributable to the Company's reduced workforce and lower pension related expenses, partially offset by wage increases in 2000.

Purchased services: Costs of purchased services decreased by $18 million, or 3%, in 2000 as compared to 1999. The decrease was mainly due to a new directional running agreement and higher recoveries from joint facilities. This was partially offset by higher consulting and professional fees related to the terminated CN-Burlington Northern Santa Fe (BNSF) combination.

Depreciation and amortization: Depreciation and amortization expense in 2000 increased by $35 million, or 7%, as compared to 1999. The increase was due to the impact of net capital additions and the acquisition, at the end of 1999, of certain equipment formerly under operating leases.

Fuel: Fuel expense in 2000 increased by $138 million, or 45%, as compared to 1999. This was largely due to a 43% increase in the average fuel price (net of the Company's fuel hedging program) as well as an increase in traffic volumes. An improvement in fuel efficiency partially offset the higher fuel costs.

Equipment rents: These expenses decreased by $43 million, or 13%, in 2000 as compared to 1999. The decrease was mainly attributable to continuing improvements in asset utilization as a result of the Company's service plan and the acquisition of certain equipment formerly under operating leases. This was partially offset by higher volumes and more foreign cars on-line.

Material: Material costs decreased by $9 million, or 4%, in 2000 as compared to 1999. This decrease was mainly a result of improved purchasing practices as well as higher recoveries from work performed for third parties.

Operating taxes: Operating taxes decreased by $14 million, or 8%, in 2000, mainly as a result of lower municipal property taxes and a refund of prior years' sales tax. This was partially offset by higher diesel fuel taxes resulting from increased volumes.

Casualty and other: These expenses decreased by $51 million, or 27%, in 2000 as compared to 1999. Lower expenses for environmental matters, damaged equipment as well as various one-time recoveries largely drove the decrease. This was partially offset by higher casualty and legal costs and bad debt expense.

Other

Interest expense: Interest expense of $311 million for the year ended December 31, 2000 remained relatively unchanged from the 1999 level.

Other income: In 2000, the Company recorded other income of $136 million compared to $55 million in 1999. This increase was mainly due to the Company's gain on the exchange of its minority equity investments in certain joint venture companies for shares of 360networks Inc.

Income tax expense: The Company recorded an income tax expense for the current year of $536 million compared to $462 million in 1999. The effective income tax rate was 36.4% for 2000 and 38.2% in 1999. The reduced effective tax rate in 2000 reflects lower overall income taxes applicable to CN and its subsidiaries' operations in certain jurisdictions.

1999 compared to 1998

Where applicable and for comparative purposes only, management's discussion and analysis of the financial results when comparing 1999 to 1998 has also been provided using 1998 pro forma figures as presented in Note 4 to the 1999 consolidated financial statements. As used herein, 1998 pro forma refers to the consolidation of the results of operations of IC, assuming the acquisition and control of IC occurred on January 1, 1998.

The Company recorded consolidated net income of $751 million ($3.81 per basic share) for the year ended December 31, 1999 compared to $266 million ($1.45 per basic share), or $295 million ($1.54 per basic share) on a pro forma basis, for the year ended December 31, 1998. Diluted earnings per share were $3.74 in 1999 compared to $1.44 ($1.53 pro forma) in 1998.

The years ended December 31, 1999 and 1998 include items impacting the comparability of the results of operations. In 1999, the Company recorded a $5 million after-tax ($0.03 per basic and diluted share) cumulative effect of changes in accounting policy for expenditures related to the improvement of bridges and other structures and freight cars, and for costs associated with employee injuries. In 1998, the Company recorded a special charge of $590 million, $345 million after tax ($1.89 per basic share, $1.80 per basic share pro forma or $1.87 per diluted share, $1.78 per diluted share pro forma), for workforce reductions and an after-tax cumulative effect of change in accounting policy for pension costs of $42 million ($0.23 per basic and diluted share, $0.22 per basic and diluted share pro forma).

Excluding the effects of the items discussed herein of $5 million ($0.03 per basic and diluted share) for 1999 and $303 million ($1.66 per basic share, $1.58 per basic share pro forma or $1.64 per diluted share, $1.56 per diluted share pro forma) for 1998, consolidated net income was $746 million ($3.78 per basic share or $3.71 per diluted share) for the year ended December 31, 1999 compared to $569 million ($3.11 per basic share or $3.08 per diluted share), or $598 million ($3.12 per basic share or $3.09 per diluted share) on a pro forma basis, for the year ended December 31, 1998.

Operating income was $1,467 million for 1999 compared to $418 million ($691 million pro forma) in 1998. When compared to 1998 operating income of $1,008 million ($1,281 million pro forma), excluding the special charge, 1999 operating income increased by $459 million, or 46% ($186 million, or 15% pro forma). The operating ratio in 1999 was 72.0% compared to 75.3% (75.1% pro forma) in 1998, excluding the special charge.

Revenues

Revenues for the year ended December 31, 1999 totaled $5,236 million as compared to $4,078 million in 1998, an increase of $1,158 million, or 28%, mainly attributable to the consolidation of IC's operating results in 1999.

When compared to 1998 pro forma revenues of $5,137 million, annual revenues increased by $99 million, or 2%. The increase was mainly due to higher revenues in automotive, petroleum and chemicals, and intermodal, partially offset by coal. Revenue ton miles increased by 4% while freight revenue per revenue ton mile decreased by 2%.

The 1998 data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual business units are discussed and analyzed solely using the 1998 pro forma figures.

Year ended December 31,	1999	1998	1999	1998	1999	1998
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 878	$ 851	24,194	22,100	3.63	3.85
Metals and minerals	398	408	9,271	9,970	4.29	4.09
Forest products	995	979	27,500	26,220	3.62	3.73
Coal	402	474	18,645	19,907	2.16	2.38
Grain and fertilizers	1,066	1,068	38,681	37,904	2.76	2.82
Intermodal	810	790	22,589	20,353	3.59	3.88
Automotive	483	382	2,733	2,215	17.67	17.25
Other items	204	185	–	–	–	–
Total	$5,236	$5,137	143,613	138,669	3.50	3.57

Petroleum and chemicals

Revenues for the year ended December 31, 1999 increased by $27 million, or 3%, over 1998. Growth stemmed from favorable market conditions for sulfur, plastics and plastics derivatives, particularly in Canada, and strong demand for liquefied petroleum gas. The improvement was partially offset by increased short-line payments related to the Company's network rationalization program. An increased average length of haul contributed to a 6% decrease in revenue per revenue ton mile.

Metals and minerals

Revenues for the year ended December 31, 1999 decreased by $10 million as compared to 1998. The 2% decrease was driven by weak steel shipments resulting from strong offshore steel imports in the United States and Canada in the earlier part of the year. This was partially offset by the growth in construction materials traffic, in line with stronger construction activity, and stronger non-ferrous metals traffic in Canada. An increase in revenue per revenue ton mile of 5% is related to a decrease in the average length of haul.

Forest products

Revenues for 1999 increased by $16 million, or 2%, over 1998. The positive 1999 performance reflected growth in lumber and panels traffic in line with Canadian and U.S. construction markets, gradual recovery in international woodpulp markets, as well as a strike at a major paper producing customer in 1998. Increased short-line payments related to the Company's network rationalization program partially offset the 1999 improvements. A shift to longer haul traffic contributed to the decrease in revenue per revenue ton mile of 3%.

Coal

Revenues for the year ended December 31, 1999 decreased by $72 million, or 15%, from 1998. The decrease in 1999 was due to weak Canadian coal exports as a result of reduced Asian steel production and contract coal price reductions. The revenue per revenue ton mile decrease of 9% was mainly attributable to reduced freight rates tied to coal prices.

Grain and fertilizers

Revenues remained essentially flat during 1999. The $2 million decrease reflects the reduction in canola oil and seed shipments consistent with market conditions and lower Canadian wheat exports in the earlier part of 1999, as well as increased short-line payments related to the Company's network rationalization program. These were offset by the increase in U.S. exports of corn through the Gulf of Mexico and of potash shipments tied to significant Canadian potash export growth in the fourth quarter of 1999. The decline in revenue per revenue ton mile of 2% mainly results from the decrease in regulated Canadian grain rates of 1.2% in August 1998.

Intermodal

Revenues in 1999 increased by $20 million, or 3%, as compared to the year ended December 31, 1998. The increase was mainly due to strength in the international segment in line with growing container trade and new traffic obtained through the Port of Vancouver. The domestic segment also contributed to this growth driven by the impact of the strong U.S. economy, partially offset by weakness in the Canadian domestic market to the west. Strong competition and a shift in traffic patterns for both the international and domestic segments resulted in a revenue per revenue ton mile decrease of 7%.

Automotive

Revenues for the year ended December 31, 1999 increased $101 million over 1998. The 26% increase in revenues is consistent with strong vehicle sales in both Canada and the United States and double-digit growth in Canadian motor vehicle exports, and reflects the impact of a strike at a major automotive manufacturer in 1998. The revenue per revenue ton mile increase of 2% is mainly due to a shift in traffic patterns and to the weakness of the Canadian dollar in the earlier part of 1999.

Other items

Revenues for the year ended December 31, 1999 increased by $19 million, or 10%, over 1998. The majority of the increase was attributable to the final branch line subsidy payment of $21 million related to the 1996 claim for unprofitable lines.

Operating expenses

Total operating expenses amounted to $3,769 million in 1999 compared to $3,660 million in 1998. When compared to 1998 operating expenses of $3,070 million, excluding the special charge for workforce reductions, 1999 operating expenses increased by $699 million, or 23%, predominantly due to the consolidation of IC's operating expenses in 1999.

Pro forma operating expenses for the year ended December 31, 1998 were $4,446 million. When compared to 1998 pro forma operating expenses of $3,856 million, excluding the special charge, 1999 operating expenses decreased by $87 million, or 2%. The decrease was mainly due to lower expenses in labor and fringe benefits, equipment rents and operating taxes, partially offset by increased purchased services costs.

The 1998 operating expense data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual operating expense categories are discussed and analyzed solely using the 1998 pro forma figures.

Dollars in millions *Year ended December 31,*	1999		1998	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,509	28.8%	$1,586	30.9%
Purchased services	569	10.9%	515	10.0%
Depreciation and amortization	490	9.3%	497	9.7%
Fuel	308	5.9%	312	6.1%
Equipment rents	328	6.3%	354	6.9%
Material	204	3.9%	219	4.3%
Operating taxes	172	3.3%	199	3.9%
Casualty and other	189	3.6%	174	3.3%
	3,769	72.0%	3,856	75.1%
Special charge	–		590	
Total	$3,769		$4,446	

Labor and fringe benefits: Labor and fringe benefit expenses in 1999 decreased by $77 million, or 5%, as compared to 1998. The majority of the decrease was attributable to the Company's reduced workforce and higher workers' compensation costs in 1998, partially offset by increased 1999 salary and benefit costs.

Purchased services: Costs of purchased services increased by $54 million, or 10%, for 1999 as compared to 1998. The increase was mainly due to higher consulting and integration costs, outsourcing fees, as well as $20 million incurred in the fourth quarter of 1999 for costs related to the proposed combination of CN and BNSF.

Depreciation and amortization: Depreciation and amortization expense in 1999 decreased by $7 million, or 1%, as compared to 1998. The impact of capital additions was more than offset by the effects of revised depreciation rates following the completion of a study in early 1999 of the Company's depreciation rates.

Fuel: An improvement in fuel efficiency as well as a lower average fuel price in 1999 (including the effects of the Company's fuel hedging program) produced a decrease in fuel expense of $4 million, or 1%, in 1999.

Equipment rents: These expenses decreased by $26 million, or 7%, in 1999 compared to 1998 due to a higher level of car hire income in 1999 versus 1998 and a lower level of short-term leases, mainly as a result of improved asset utilization from the new service plan.

Material: Material costs decreased by $15 million, or 7%, in 1999 from the 1998 level. The decrease in 1999 was mainly as a result of lower running repairs due to a fewer number of locomotives and freight cars in service.

Operating taxes: Operating taxes decreased by $27 million, or 14%, in 1999, mainly as a result of a decrease in the Alberta statutory diesel fuel tax rate, a refund of prior years' taxes and lower municipal property tax rates in certain jurisdictions.

Casualty and other: These expenses increased by $15 million, or 9%, during 1999. The increase was largely driven by the increase in the provision for environmental costs in 1999 as well as the one-time recovery of costs from a third party in 1998. The increase was partially offset by lower costs related to legal claims in 1999.

Other

Interest expense: Interest expense for the year ended December 31, 1999 was $314 million compared to $242 million in 1998. The 1999 increase of $72 million was largely attributable to the consolidation of IC in 1999. Compared to 1998 on a pro forma basis, interest expense decreased by $17 million, mainly as a result of debt repayments from the proceeds of the common shares and convertible preferred securities issuances at the end of June 1999.

Other income: The Company consolidated the results of IC in 1999. In 1998, the Company applied the equity method of accounting for its investment in IC. Equity in the earnings of IC for the year ended December 31, 1998 was $105 million. Pro forma figures have been presented in Note 4 to the 1999 consolidated financial statements as if the Company had consolidated the results of IC on January 1, 1998.

In 1999, the Company recorded other income of $55 million compared to other income of $17 million ($23 million pro forma) in 1998, excluding the equity in earnings of IC. The increase in 1999 was mainly due to first quarter right-of-way revenues of $20 million and the comparative period's $26 million of unrealized foreign exchange loss on the translation of the Company's U.S. dollar denominated long-term debt.

Income tax expense: The Company recorded income tax expense of $462 million for the year ended December 31, 1999 compared to income tax expense of $74 million ($130 million pro forma) in 1998. The effective income tax rate was 38.2% in 1999 and 40.7% (38.5% pro forma) in 1998, excluding the equity in earnings of IC as well as the effect of the special charge in 1998.

Liquidity and capital resources

Operating activities: Cash provided from operations was $1,506 million for the year ended December 31, 2000 compared to $1,278 million for 1999. Net income, excluding non-cash items, generated cash of $1,698 million in 2000, up from $1,657 million in 1999. A portion of the cash generated in 2000 and 1999 was consumed by payments with respect to workforce reductions of $189 million and $219 million, respectively. As a result of the 2000 payments, the workforce reduction accruals have been reduced to $513 million as at December 31, 2000. Cash payments with respect to these workforce reduction accruals are expected to be approximately $137 million in 2001.

Investing activities: Cash used by investing activities in 2000 amounted to $981 million compared to $898 million in 1999. Net capital expenditures amounted to $958 million for the year ended December 31, 2000, an increase of $22 million over 1999. Capital expenditures included roadway renewal, rolling stock and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2001 will remain at approximately the same level as 2000. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at December 31, 2000, the Company had commitments to acquire freight cars at an aggregate cost of $13 million, rail at a cost of $28 million and railroad ties at a cost of $25 million.

Dividends: During 2000, the Company paid dividends totaling $136 million to its shareholders at the rate of $0.175 per share per quarter.

Financing activities: Cash used by financing activities totaled $679 million for the year ended December 31, 2000 compared to $273 million in 1999. The Company used $529 million in 2000 to repurchase common shares as part of the share repurchase program. During 2000, the Company recorded $149 million in capital lease obligations ($235 million in 1999) for capital leases related to new equipment and the exercise of purchase options on existing equipment.

Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and Wisconsin Central Transportation Corporation (WC) entered into a merger agreement (the Merger), providing for the acquisition of WC by the Company for a purchase price of approximately $1,200 million (U.S.$800 million or U.S.$17.15 per share) payable in cash. The acquisition will be initially financed by debt and cash on hand.

The Merger is subject to, among other things, approval by the shareholders of WC. WC shareholders are expected to vote on the proposed Merger during the first half of 2001.

In accordance with the terms of the Merger, the Company's obligation to consummate the Merger is subject to the Company having obtained from the U.S. Surface Transportation Board (STB) a final, unappealable decision that approves the Merger or exempts it from regulation and does not impose on the parties conditions that would significantly and adversely affect the anticipated economic benefits of the Merger to the Company.

If the acquisition is completed, the Company will account for the acquisition of WC using the purchase method of accounting in accordance with Opinion No. 16, "Business Combinations," of the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this method, the Company will prepare its financial statements reflecting the allocation of the purchase price to acquire the WC shares based on the relative fair values of the assets and liabilities of WC. The results of operations of the Company will reflect the effects of the acquisition following the consummation of the Merger.

Investment in 360networks Inc.

In March 2000, the Company exchanged its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc., a company which offers broadband network services for telecommunication companies, information service providers, application service providers and data-centric enterprises. The Company recorded the shares received at their then estimated fair value resulting in a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share).

On April 20, 2000, 360networks Inc. completed an initial public offering (IPO). According to the terms of an agreement with 360networks Inc. and securities regulations, it is not anticipated that the Company will sell its shares in 360networks Inc. within 12 months of the IPO.

Following the IPO, the Company accounts for its investment in accordance with the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The shares held have been classified as "available-for-sale securities" whereby the investment is carried at market value on the balance sheet as part of Other assets and deferred charges. The increase in the value of the investment has been recorded in Other comprehensive income as an unrealized holding gain of $129 million ($94 million, after tax) in 2000. At the time of sale, the unrealized holding gain or loss, net of taxes, would be reversed and reported in income. As at December 31, 2000, the market value of the Company's investment was $216 million.

Under separate right-of-way sale agreements, the Company receives revenues and fiber-optic strands for its own rail purposes. Once construction of the network is completed, the Company will have an uninterrupted North American fiber-optic-based communications network on its rights-of-way between Vancouver, Halifax and New Orleans.

Share repurchase programs

In 2000, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. During 2000, $529 million was used to repurchase 13 million common shares at an average price of $40.70 per share.

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 10 million common shares of the Company's common stock between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices.

Recent accounting pronouncements

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." In June 2000, SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" was issued modifying certain provisions of SFAS No. 133. These statements, which are effective for the year ending December 31, 2001, require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or Other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, the type of hedge transaction. The Company does not expect these statements, when adopted, to have a material impact on its financial statements.

In September 2000, the FASB issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This new Statement replaces SFAS No. 125 and is effective for transfers occurring after March 31, 2001. The Company does not expect the adoption of SFAS No. 140 to have a material impact on its financial statements.

Business risks

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth below as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

Competition

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company (CP) which operates the other major rail system in Canada, serving most of the same industrial and population centers as CN, long distance trucking companies and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of service provided, price and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers located relatively close to one another have encouraged significant competition from trucking companies and rail network over-capacity. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river. As a result, the revenue per revenue ton mile of ICRR has generally been lower than industry averages for these commodities.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry would not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Environment

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railway operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years for environmental matters, its ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

In the operation of a railroad, it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

Because the ultimate cost of known contaminated sites cannot be definitely established, and because additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases, no assurance can be given that the Company will not incur material environmental liabilities in the future.

As at December 31, 2000, the Company had aggregate accruals for environmental costs of $85 million ($96 million at December 31, 1999). The Company has not included any reduction in costs for anticipated recovery from insurance.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 2000 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Labor negotiations

Labor agreements with all Canadian unions expired on December 31, 2000. In January 2001, CN achieved ratified settlements with two of the labor organizations representing 3,500 of CN's approximately 14,300 Canadian unionized employees: the Brotherhood of Maintenance of Way Employees (BMWE) and the Canadian National Railway Police Association. These agreements are for a three-year period effective until December 31, 2003.

The Company has had several negotiating sessions with the remaining unions and negotiations are ongoing. Settlements, pending ratification, have been reached with the Canadian Auto Workers (CAW) (approximately 5,000 employees) and the International Brotherhood of Electrical Workers (approximately 700 employees). The Company is currently in negotiations with the Canadian Council Railway of Operating Unions (CCROU) (approximately 4,900 employees) and the Rail Canada Traffic Controllers (RCTC) (approximately 250 employees). While the Company is currently negotiating to conclude a favorable settlement with the CCROU and the RCTC, there can be no assurance at this time that the outcome of these negotiations will not have a material adverse impact on the Company's business, financial condition and results of operations.

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. For several years now, both Grand Trunk Western (GTW) and IC have bargained on a local basis rather than holding national, industry wide negotiations. Local negotiations result in settlements that better address both the employees' concerns and preferences and the railways' actual operating environment. There are risks associated with negotiating locally. Presidents and Congress have demonstrated that they will step in to avoid national strikes, while a local dispute may not generate federal intervention, making an extended work stoppage more likely. CN's management believes the potential mutual benefits of local bargaining outweigh the risks.

At the end of 2000, the Company had in place current agreements with bargaining units representing approximately 90% of the unionized work force at IC. On January 1, 2001, collective bargaining agreements, covering approximately 40% of unionized employees, opened for negotiation with the United Transportation Union (UTU) (approximately 800 employees) and the Brotherhood of Locomotive Engineers (BLE) (approximately 450 employees). Negotiations are ongoing.

At the end of 2000, the Company also had in place current agreements with bargaining units representing approximately 75% of the unionized workforce at GTW and Duluth Winnipeg and Pacific (DWF). Contracts for approximately 180 GTW employees and approximately 80 DWP employees (about 15% in total) opened at the beginning of 2001. The Company is in mediation with the Brotherhood of Railway Carmen/Transportation Communication International Union (approximately 200 GTW employees). A mediator has been assigned and negotiations are ongoing. The Company has a tentative settlement with the BMWE (approximately 200 employees), subject to ratification.

At CCP Holdings, Inc. (CCP), agreements have been achieved with the UTU (subject to ratification, approximately 100 employees) and the BLE (approximately 60 employees). The balance of the bargaining units (approximately 55%) have ratified agreements in place through to the end of 2002.

Negotiations are ongoing with the bargaining units with which the Company has not yet achieved new settlements. Until new agreements are reached, the terms and conditions of previous agreements continue to apply. The Company does not anticipate work action related to these negotiations while they are ongoing.

Regulation

The Company's Canadian rail operations are subject to the Canada Transportation Act, the Railway Safety Act, the Transportation of Dangerous Materials Act and associated regulations and statutes administered by the CTA and the federal Minister of Transportation. The Company's U.S. rail operations are subject to regulation by the STB and the Federal Railway Administration (FRA). In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

Following completion of its review of the efficiency of the grain transportation and handling system and the sharing of efficiency gains between shippers and railway companies, the Canadian government adopted reform legislation in 2000 which imposed *inter alia* an 18% reduction on revenues which railways can earn in the movement of export grain in western Canada.

The Canada Transportation Act must be reviewed by July 1, 2001 and the government has appointed a review panel to look at all aspects of the Act. An area to be considered will be the question of "competitive access" to the CN and CP networks for other rail carriers. CN has put a team together to present its position to the review panel. No assurance can be given that recent amendments to the Canada Transportation Act or any other decision by the Canadian government following its review will not materially adversely affect the Company's financial position or results of operations.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. However, the credit rating of counterparties is regularly monitored.

The forward exchange contract (currency swap) with respect to the 15-year Swiss franc bonds that the Company had previously entered into matured in August 2000. This forward exchange contract acted as a hedge to effectively fix the amount of Canadian dollars required over the term of the debt to make all necessary payments in the foreign currency of issue. The Company did not incur any significant net gains or losses with respect to this transaction.

In 2000, the Company entered into interest rate swap transactions for a total notional amount of $150 million and U.S.$50 million (Cdn$75 million) resulting in effectively converting some fixed interest rate debt into floating interest rate debt. These transactions bring the Company's floating rate debt to approximately 13% of the total consolidated debt. As at December 31, 2000, there was no material change in the value of the swaps.

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. Various swaps and collar agreements are in place to mitigate the risk of fuel price volatility. To further reduce the earnings volatility resulting from variations in the price of fuel, the Company has adopted a systematic approach to its hedging activities which calls for regularly entering into positions to cover a target percentage of future fuel consumption up to two years in advance.

The realized gains at December 31, 2000 and 1999 were $49 million and $5 million, respectively. Hedging positions and credit ratings of counterparties are monitored and losses due to counterparty non-performance are not anticipated. At December 31, 2000, the Company hedged approximately 33% of the estimated 2001 fuel consumption and 23% of the estimated 2002 fuel consumption. This represented approximately 200 million U.S. gallons at an average price of U.S.$0.6343 per U.S. gallon. Unrealized gains or losses from the Company's fuel hedging activities were $17 million loss and $9 million gain as at December 31, 2000 and 1999, respectively.

Other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. Many of the goods and commodities carried by the Company experience cyclicality in demand. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicality because of the significant fixed costs inherent in railroad operations. The Company's revenues are affected by prevailing economic conditions. Should an economic slowdown or recession occur in North America or other key markets, or should major industrial restructuring take place, the volume of rail shipments carried by the Company is likely to be affected. For example, CN does not expect a recovery in Canadian metallurgical coal traffic going forward. Reductions in coal prices coupled with reduced volumes as the demand for Asian imports continues to fall, along with several mine closures, all significantly impact the growth prospects for the Canadian coal business. However, Canadian metallurgical coal only represented between 1%–2% of the Company's 2000 freight revenues.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in the first quarter of 1998, a severe ice storm hit eastern Canada which disrupted operations and service for the railroad as well as for CN customers.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Management Report

The accompanying consolidated financial statements of Canadian National Railway Company and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in the United States. These statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this report principally through its Audit and Finance Committee, consisting solely of outside directors. The Audit and Finance Committee reviews the Company's consolidated financial statements and annual report and recommends their approval by the Board of Directors. Also, the Audit and Finance Committee meets regularly with the Chief, Internal Audit, and with the shareholders' auditors.

These consolidated financial statements have been audited by KPMG LLP, who have been appointed as the sole auditors of the Company by the shareholders.

Claude Mongeau
Executive Vice-President and Chief Financial Officer

January 29, 2001

Serge Pharand

Serge Pharand
Vice-President and Corporate Comptroller

January 29, 2001

Auditors' Report

To the Board of Directors of Canadian National Railway Company

We have audited the consolidated balance sheets of Canadian National Railway Company as at December 31, 2000 and 1999 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in accordance with United States generally accepted accounting principles.

On January 23, 2001, we reported separately to the shareholders of the Company on consolidated financial statements for the same period, prepared in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 23, 2001 (January 29, 2001 as to Note 3)

Consolidated Statement of Income

In millions, except per share data *Year ended December 31,*	2000	1999	1998
Revenues			
Petroleum and chemicals	$ 894	$ 878	$ 578
Metals and minerals	392	398	319
Forest products	1,008	995	817
Coal	328	402	342
Grain and fertilizers	1,136	1,066	798
Intermodal	919	810	712
Automotive	559	483	377
Other items	192	204	135
Total revenues	5,428	5,236	4,078
Operating expenses			
Labor and fringe benefits	1,482	1,509	1,293
Purchased services	551	569	450
Depreciation and amortization	525	490	316
Fuel	446	308	263
Equipment rents	285	328	291
Material	195	204	176
Operating taxes	158	172	170
Casualty and other	138	189	111
Special charge *(Note 15)*	–	–	590
Total operating expenses	3,780	3,769	3,660
Operating income	1,648	1,467	418
Interest expense *(Note 16)*	(311)	(314)	(242)
Other income *(Note 17)*	136	55	122
Income before income taxes and cumulative effect of changes in accounting policy	1,473	1,208	298
Income tax expense *(Note 18)*	(536)	(462)	(74)
Income before cumulative effect of changes in accounting policy	937	746	224
Cumulative effect of changes in accounting policy (net of applicable income taxes) *(Note 2)*	–	5	42
Net income	$ 937	$ 751	$ 266
Basic earnings per share (Note 20)			
Income before cumulative effect of changes in accounting policy	$ 4.81	$ 3.78	$ 1.22
Net income	$ 4.81	$ 3.81	$ 1.45
Diluted earnings per share (Note 20)			
Income before cumulative effect of changes in accounting policy	$ 4.67	$ 3.71	$ 1.21
Net income	$ 4.67	$ 3.74	$ 1.44

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions *Year ended December 31,*	2000	1999	1998
Net income	**$ 937**	$ 751	$ 266
Other comprehensive income (loss) *(Note 23)*:			
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	**(91)**	180	(246)
Unrealized foreign exchange gain (loss) on translation of the net investment in U.S. subsidiaries	**191**	(202)	259
Unrealized holding gain on investment in 360networks Inc. *(Note 7)*	**129**	–	–
Minimum pension liability adjustment	**–**	2	(2)
Other comprehensive income (loss) before income taxes	**229**	(20)	11
Income tax (expense) recovery on other comprehensive income (loss) items	**(72)**	8	(5)
Other comprehensive income (loss)	**157**	(12)	6
Comprehensive income	**$1,094**	$ 739	$ 272

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

In millions *December 31,*	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 15	$ 305
Accounts receivable *(Note 5)*	726	800
Material and supplies	110	115
Deferred income taxes *(Note 18)*	114	146
Other	143	149
	1,108	1,515
Properties *(Note 6)*	15,638	14,620
Other assets and deferred charges *(Note 7)*	568	295
Total assets	$17,314	$16,430
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued charges *(Note 9)*	$ 1,389	$ 1,373
Current portion of long-term debt *(Note 11)*	434	271
Other	82	120
	1,905	1,764
Deferred income taxes *(Note 18)*	3,375	2,975
Other liabilities and deferred credits *(Note 10)*	1,205	1,287
Long-term debt *(Note 11)*	3,886	3,948
Convertible preferred securities *(Note 12)*	345	334
Shareholders' equity:		
Common shares *(Note 12)*	4,349	4,597
Accumulated other comprehensive income (loss) *(Note 23)*	151	(6)
Retained earnings	2,098	1,531
	6,598	6,122
Total liabilities and shareholders' equity	$17,314	$16,430

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

In millions	Issued and outstanding common shares	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balances December 31, 1997	171.2	$ 3,279	$ –	$ 731	$ 4,010
Net income	–	–	–	266	266
Shares issued in second-step acquisition of Illinois Central Corporation	20.2	824	–	–	824
Stock options issued in second-step acquisition of Illinois Central Corporation	–	25	–	–	25
Stock options exercised and employee share plans *(Note 13)*	0.4	13	–	–	13
Other comprehensive income *(Note 23)*	–	–	6	–	6
Dividends ($0.53 per share)	–	–	–	(99)	(99)
Balances December 31, 1998	191.8	4,141	6	898	5,045
Net income	–	–	–	751	751
Shares issued *(Note 12)*	9.2	404	–	–	404
Stock options exercised and employee share plans *(Note 13)*	1.4	52	–	–	52
Other comprehensive loss *(Note 23)*	–	–	(12)	–	(12)
Dividends ($0.60 per share)	–	–	–	(118)	(118)
Balances December 31, 1999	202.4	4,597	(6)	1,531	6,122
Net income	–	–	–	937	937
Stock options exercised and employee share plans *(Note 13)*	1.2	47	–	–	47
Share repurchase program *(Note 12)*	(13.0)	(295)	–	(234)	(529)
Other comprehensive income *(Note 23)*	–	–	157	–	157
Dividends ($0.70 per share)	–	–	–	(136)	(136)
Balances December 31, 2000	**190.6**	**$4,349**	**$ 151**	**$2,098**	**$6,598**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions *Year ended December 31,*	2000	1999	1998
Operating activities			
Net income	$ 937	$ 751	$ 266
Non-cash items in income:			
Special charge *(Note 15)*	–	–	590
Cumulative effect of changes in accounting policy *(Note 2)*	–	(5)	(42)
Depreciation and amortization *(Note 19 (B))*	533	496	319
Deferred income taxes *(Note 18)*	312	417	56
Gain on exchange of investments *(Note 7)*	(84)	–	–
Equity in earnings of Illinois Central Corporation *(Note 4 (A))*	–	–	(105)
Other	–	(2)	–
Changes in:			
Accounts receivable *(Note 5)*	80	(157)	267
Material and supplies	6	38	19
Accounts payable and accrued charges *(Note 9)*	32	63	65
Other net current assets and liabilities	(36)	(27)	(3)
Payments for workforce reduction *(Note 10 (A))*	(189)	(219)	(187)
Other	(85)	(77)	(8)
Cash provided from operating activities	1,506	1,278	1,237
Investing activities			
Net additions to properties *(Note 19 (B))*	(958)	(936)	(744)
Net (costs) proceeds from disposal of properties	(13)	36	54
Investment in Illinois Central Corporation *(Note 4 (A))*	–	–	(2,608)
Other	(10)	2	(1)
Cash used by investing activities	(981)	(898)	(3,299)
Dividends paid to shareholders	(136)	(118)	(99)
Financing activities			
Issuance of long-term debt	860	456	4,589
Issuance of convertible preferred securities *(Note 12)*	–	339	–
Reduction of long-term debt	(1,038)	(1,508)	(2,543)
Issuance of common shares *(Note 12)*	28	440	13
Repurchase of common shares *(Note 12)*	(529)	–	–
Cash provided from (used by) financing activities	(679)	(273)	2,059
Net decrease in cash	(290)	(11)	(102)
Cash and cash equivalents, beginning of year*	305	316	364
Cash and cash equivalents, end of year	$ 15	$ 305	$ 262

** The cash and cash equivalents balance at the beginning of 1999 includes the cash and cash equivalents of Illinois Central Corporation which has been consolidated beginning in 1999.*

See accompanying notes to consolidated financial statements.

CN, directly and through its subsidiaries, is engaged primarily in the rail transportation business. CN spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the Canadian ports of Vancouver, Prince Rupert, Montreal and Halifax, and Gulf of Mexico ports in New Orleans, Louisiana and Mobile, Alabama, and the key cities of Vancouver, Edmonton, Calgary, Winnipeg, Montreal, Toronto, Buffalo, Chicago, Detroit, Memphis, St. Louis and Jackson, Mississippi, with connections to all points in North America. CN's revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

A. Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries, including Illinois Central Corporation (IC) for which the Company acquired control effective July 1, 1999 and has consolidated IC's financial statements retroactive to January 1, 1999. During 1998, the Company accounted for its investment in IC using the equity method of accounting pending approval of the acquisition of control of IC from the U.S. Surface Transportation Board (STB). The Company's investments, in which it has significant influence, are accounted for using the equity method.

B. Revenues

Freight revenues are recognized on services performed by the Company, based on the percentage of completed service method. Costs associated with movements are recognized as the service is performed.

C. Foreign exchange

The unrealized foreign exchange gain or loss from translation of all U.S. operations is recorded in Other comprehensive income.

Subsequent to the integration of the Company's U.S. operations, effective October 1, 2000 all of the Company's U.S. operations are classified as self-sustaining foreign entities with the U.S. dollar as their functional currency. Accordingly, the U.S. operations' assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. The initial translation adjustment of $77 million (pre-tax), resulting from the change of the functional currency of the U.S. operations not previously considered self-sustaining, was recorded in Other comprehensive income (Note 23).

The Company has designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in its U.S. subsidiaries. Unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are also included in Other comprehensive income.

D. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

E. Accounts receivable

Accounts receivable are recorded at cost net of the provision for doubtful accounts. Any gains or losses on the sale of accounts receivable are calculated by comparing the carrying amount of the accounts receivable sold to the total of the cash proceeds on sale and the fair value of the retained interest in such receivables on the date of transfer. Fair values are determined on a discounted cash flow basis. Costs related to the sale of accounts receivable are recognized in earnings in the period incurred.

F. Material and supplies

The inventory is valued at weighted-average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable secondhand, obsolete and scrap materials.

G. Properties

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. All costs of labor, materials and other costs associated with the installation of rail, ties, ballast and other track improvements are capitalized to the extent they meet the Company's definition of "unit of property." Included in property additions are the cost of developing computer software for internal use. Maintenance costs are expensed as incurred.

The cost of railroad properties, less salvage value, retired or disposed of in the normal course of business is charged to accumulated depreciation, in accordance with the group method of depreciation. Losses resulting from significant line sales or abandonments are recognized upon the announcement of the disposition. Gains are recognized when they are realized. The Company reviews the carrying amounts of properties whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

1 Summary of significant accounting policies *(continued)*

H. Depreciation

The cost of properties, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Rolling stock	3%
Buildings	3%
Other	2%

The Company performs periodic reviews of its depreciation rates. Adjustments to rates resulting from such reviews have not had a material impact on operating results.

I. Pensions

Pension costs are determined using actuarial methods. Pension expense is charged to operations and includes:

(i) the cost of pension benefits provided in exchange for employees' services rendered during the year,

(ii) the amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans,

(iii) the amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and

(iv) the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

J. Post-retirement benefits other than pensions

The Company accrues the cost of post-retirement benefits other than pensions. These benefits, which are funded by the Company as they become due, include life insurance programs, medical benefits, supplemental pension allowances and free rail travel benefits.

The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the projected benefit obligation over the expected average remaining service life of the employee group covered by the plans.

K. Financial instruments

Derivative financial instruments may be used from time to time by the Company in the management of its fuel, interest rate and foreign currency exposures. Gains or losses on such instruments entered into for the purposes of hedging financial risk exposures are deferred and amortized in the results of operations over the life of the hedged asset or liability or over the terms of the derivative financial instrument. Income and expense related to financial instruments are recorded in the same category as that generated by the underlying asset or liability.

L. Environmental expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

M. Income taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in income. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

N. Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." In June 2000, SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" was issued modifying certain provisions of SFAS No. 133. These statements, which are effective for the year ending December 31, 2001, require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or Other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, the type of hedge transaction. The Company does not expect these statements, when adopted, to have a material impact on its financial statements.

In September 2000, the FASB issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This new Statement replaces SFAS No. 125 and is effective for transfers occurring after March 31, 2001. The Company does not expect the adoption of SFAS No. 140 to have a material impact on its financial statements.

2 Accounting changes

The Company has made certain changes in accounting policies to conform its policies with those generally accepted in the railroad industry.

1999

The Company changed its capitalization policies for certain expenditures relating to improvements of bridges and other structures and freight cars. The new policies involve capitalizing all major expenditures for work that extends the useful life and/or improves the functionality of the respective assets.

In addition, the Company changed its method of accounting for employee injury costs to reflect all elements of such costs (including compensation, health care and administration costs) based on actuarially developed estimates of the ultimate cost associated with employee injuries.

The cumulative effect of the capitalization policy changes at January 1, 1999 was a credit of $62 million (net of applicable income taxes), while the cumulative effect of the change in method of accounting for employee injury costs was a charge of $57 million (net of applicable income taxes). The impact of the accounting policy changes was to increase net income for the year ended December 31, 1999 by $12 million.

1998

In 1998, the Company changed its accounting policy for pension costs and adopted the corridor approach to account for experience gains and losses, as described in SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions." Accordingly, experience gains and losses within the specified corridor were not amortized in 1998. The cumulative effect of the change in accounting policy was $42 million (net of applicable income taxes) as at January 1, 1998.

Effective January 1, 1998, the Company adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with the requirements of this statement, this change has been applied prospectively. The impact of the adoption of SOP 98-1 was to increase net income by approximately $13 million for the year ended December 31, 1998.

3 Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and Wisconsin Central Transportation Corporation (WC) entered into a merger agreement (the Merger), providing for the acquisition of WC by the Company for a purchase price of approximately $1,200 million (U.S.$800 million or U.S.$17.15 per share) payable in cash. The acquisition will be initially financed by debt and cash on hand.

The Merger is subject to, among other things, approval by the shareholders of WC. WC shareholders are expected to vote on the proposed Merger during the first half of 2001.

In accordance with the terms of the Merger, the Company's obligation to consummate the Merger is subject to the Company having obtained from the STB a final, unappealable decision that approves the Merger or exempts it from regulation and does not impose on the parties conditions that would significantly and adversely affect the anticipated economic benefits of the Merger to the Company.

If the acquisition is completed, the Company will account for the acquisition of WC using the purchase method of accounting in accordance with Opinion No. 16, "Business Combinations," of the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this method, the Company will prepare its financial statements reflecting the allocation of the purchase price to acquire the WC shares based on the relative fair values of the assets and liabilities of WC. The results of operations of the Company will reflect the effects of the acquisition following the consummation of the Merger.

4 Business combinations

A. Acquisition and consolidation of Illinois Central Corporation

In 1998, the Company, through an indirect wholly owned subsidiary, acquired IC in a two-step transaction for a purchase price of approximately U.S.$2.4 billion payable as to 75% in cash and 25% in common shares of the Company. On March 14, 1998, the Company acquired 75% of the outstanding common shares of IC for $2,549 million (U.S.$1,796 million) or U.S.$39 per share. On June 4, 1998, the Company acquired the remaining 25% of the outstanding common shares of IC for 20.2 million shares of the Company's common stock. In addition, the outstanding IC stock options were exchanged for stock options of the Company.

Pending STB approval, the Company accounted for its investment in IC under the equity method of accounting. Effective July 1, 1999, the Company assumed control of IC and consolidated the results of IC since January 1, 1999.

B. Proposed combination of Canadian National and Burlington Northern Santa Fe

On December 18, 1999, CN and Burlington Northern Santa Fe Corporation (BNSF) entered into a Combination Agreement (the Combination) providing for the combination of the two companies. The Combination was subject to, among other things, approval by the shareholders of CN and BNSF, as well as approvals by the Quebec Superior Court and the STB. On March 17, 2000, the STB issued a decision directing large railroads not to pursue further merger activities until the STB has adopted new rules governing merger proceedings. On July 14, 2000, the United States Court of Appeals for the District of Columbia Circuit rendered its decision denying CN's petition for review and upholding the STB's moratorium. On July 20, 2000, CN and BNSF announced that their Boards of Directors had both voted to approve an immediate, mutual termination of the Combination.

5 Accounts receivable

In millions December 31,	2000	1999
Freight		
Trade	$470	$441
Accrued	81	161
Non-freight	238	244
	789	846
Provision for doubtful accounts	(63)	(46)
	$726	$800

In 1998, the Company entered into a five-year revolving agreement to sell eligible freight trade receivables up to a maximum of $250 million of receivables outstanding at any point in time. At December 31, 2000, pursuant to the agreement, $147 million and U.S.$40 million (Cdn$61 million) had been sold on a limited recourse basis compared to $147 million and U.S.$40 million (Cdn$58 million) at December 31, 1999. The Company has retained the responsibility for servicing, administering and collecting freight trade receivables sold. Included in Other income is $10 million in 2000 and $9 million in 1999 for costs related to the agreement, which fluctuate with changes in prevailing interest rates.

No servicing asset or liability has been recorded since the fees the Company receives for servicing the receivables approximate the related costs.

6 Properties

In millions	*December 31, 2000*			*December 31, 1999*		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway	$18,217	$5,963	$12,254	$17,200	$5,634	$11,566
Rolling stock	3,599	1,323	2,276	3,328	1,143	2,185
Buildings	1,453	721	732	1,200	650	550
Other	856	480	376	781	462	319
	$24,125	$8,487	$15,638	$22,509	$7,889	$14,620
Capital leases included in properties	$ 1,155	$ 162	$ 993	$ 1,006	$ 115	$ 891

7 Other assets and deferred charges

In millions December 31,	2000	1999
Investment in 360networks Inc.	$216	$ –
Prepaid benefit cost *(Note 14)*	166	113
Deferred receivables	73	87
Other investments	53	22
Unamortized debt issue costs	49	55
Other	11	18
	$568	$295

In March 2000, the Company exchanged its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc., a company which offers broadband network services for telecommunication companies, information service providers, application service providers and data-centric enterprises. The Company recorded the shares received at their then estimated fair value resulting in a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share).

On April 20, 2000, 360networks Inc. completed an initial public offering (IPO). According to the terms of an agreement with 360networks Inc. and securities regulations, it is not anticipated that the Company will sell its shares in 360networks Inc. within 12 months of the IPO.

Following the IPO, the Company accounts for its investment in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The shares have been classified as "available-for-sale securities" whereby the investment is carried at market value on the balance sheet. The increase in the value of the investment has been recorded in Other comprehensive income as an unrealized holding gain of $129 million ($94 million, after tax) in 2000. At the time of sale, the unrealized holding gain or loss, net of taxes, would be reversed and reported in income. As at December 31, 2000, the market value of the Company's investment was $216 million.

Under separate right-of-way agreements with 360networks Inc., the Company receives revenues and fiber-optic strands for its own rail purposes.

8 Credit facilities

The Company has U.S.$1,000 million five-year revolving credit facilities which expire in 2003. The credit facilities provide for interest on borrowings at various interest rates including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate plus applicable margins. The credit facility agreements contain customary financial covenants, based on U.S. generally accepted accounting principles, including i) limitations on debt as a percentage of total capitalization, ii) maintenance of tangible net worth above predefined levels, and iii) maintenance of the fixed charge coverage ratio above predefined levels. The Company was in compliance with all of these financial covenants throughout the year. The Company's commercial paper program is backed up by CN's revolving credit facility. In June 1999, the Company used proceeds from the sale of common shares and convertible preferred securities to repay U.S.$125 million (Cdn$185 million) of commercial paper and U.S.$310 million (Cdn$456 million) of the Company's revolving credit facilities. In July 1999, the balance of the revolving credit facilities were repaid. During 2000, the Company did not draw on the credit facilities. As at December 31, 2000, the Company had $77 million of commercial paper outstanding (U.S.$6 million (Cdn$9 million) as at December 31, 1999).

9 Accounts payable and accrued charges

In millions *December 31,*	2000	1999
Trade payables	$ 403	$ 486
Accrued taxes	244	88
Payroll-related accruals	194	185
Accrued charges	187	195
Current portion of workforce reduction provisions	137	182
Accrued interest on long-term debt	126	119
Accrued operating leases	31	29
Other	67	89
	$1,389	$1,373

10 Other liabilities and deferred credits

In millions *December 31,*	2000	1999
Workforce reduction provisions, net of current portion *(A)*	$ 376	$ 517
Personal injury and other claims	373	309
Accrual for post-retirement benefits other than pensions *(B)*	231	220
Environmental reserve, net of current portion	64	66
Deferred credits and other	161	175
	$1,205	$1,287

A. Workforce reduction provisions

The workforce reduction provisions, which cover employees in both Canada and the United States, are mainly comprised of severance payments, the majority of which will be disbursed within the next five years. Other elements of the provisions mainly include early retirement incentives and bridging to early retirement. Payments for severance and other elements of the provisions have reduced the provisions by $189 million for the year ended December 31, 2000 ($219 million for the year ended December 31, 1999). The aggregate provisions amount to $513 million at December 31, 2000.

B. Post-retirement benefits other than pensions

(i) Change in benefit obligation

In millions *Year ended December 31,*	2000	1999
Benefit obligation at beginning of year	$230	$172
Interest cost	15	15
Service cost	8	8
Foreign currency changes	3	(3)
Actuarial (gain) loss	3	(13)
Benefits paid	(17)	(16)
Consolidation of IC	–	67
Benefit obligation at end of year	$242	$230

(ii) Funded status

In millions *December 31,*	2000	1999
Unfunded benefit obligation at end of year	$242	$230
Unrecognized net actuarial loss	(8)	(6)
Unrecognized prior service cost	(3)	(4)
Accrued benefit cost for post-retirement benefits other than pensions	$231	$220

(iii) Components of net periodic benefit cost

In millions *Year ended December 31,*	2000	1999	1998
Interest cost	$15	$15	$11
Service cost	8	8	4
Amortization of prior service cost	1	1	1
Recognized net actuarial loss	1	2	1
Net periodic benefit cost	$25	$26	$17

(iv) Weighted-average assumptions

December 31,	2000	1999	1998
Discount rate	6.95%	7.39%	6.00%
Rate of compensation increase	4.25%	4.25%	4.25%

A one-percentage-point change in the health care trend rate would not cause a material change in the Company's net periodic benefit cost nor the post-retirement benefit obligation.

11 Long-term debt

In millions	Maturity	Currency in which payable	December 31, 2000	1999
Bonds, debentures and notes: (A)				
Canadian National series:				
5⅜% 15-year Swiss franc bonds *(B)*	Aug. 22, 2000	CHF	$ –	$ 99
8¼% 15-year notes	May 21, 2001	Cdn$	150	150
6⅝% 10-year notes	May 15, 2003	U.S.$	225	218
7% 10-year notes	Mar. 15, 2004	U.S.$	398	386
6.45% Puttable Reset Securities (PURS) *(C)*	July 15, 2006	U.S.$	375	363
6.80% 20-year notes *(D)*	July 15, 2018	U.S.$	300	291
7⅜% 30-year debentures	May 15, 2023	U.S.$	225	218
6.90% 30-year notes *(D)*	July 15, 2028	U.S.$	712	690
Illinois Central series:				
6.83% 5-year notes	May 17, 2000	U.S.$	–	44
7.12% 5-year notes	Aug. 2, 2001	U.S.$	75	73
6.72% 5-year notes	Aug. 14, 2001	U.S.$	75	73
4% 2-year notes	Mar. 1, 2002	U.S.$	1	1
6¾% 10-year notes	May 15, 2003	U.S.$	150	145
Non-interest bearing 7-year notes	Nov. 29, 2003	U.S.$	1	1
7¾% 10-year notes	May 1, 2005	U.S.$	150	145
6.98% 12-year notes	July 12, 2007	U.S.$	75	73
6.63% 10-year notes	June 9, 2008	U.S.$	30	29
5% 99-year income debentures	July 1, 2032	U.S.$	1	1
5% 99-year income debentures	Dec. 1, 2056	U.S.$	12	12
7.7% 100-year debentures	Sep. 15, 2096	U.S.$	187	182
Total bonds, debentures and notes			3,142	3,194
Other:				
Commercial paper *(E) (Note 8)*		Various	77	9
Capital lease obligations, amounts owing under equipment agreements and other *(F)*		Various	1,114	1,029
Total other			1,191	1,038
Subtotal			4,333	4,232
Less:				
Current portion of long-term debt			434	271
Net unamortized discount			13	13
			447	284
			$3,886	$3,948

A. The Company's bonds, debentures and notes are unsecured.

B. The bonds issued in Swiss francs (CHF170 million), bearing an interest rate of 5⅜%, were effectively converted at their issue date to a $99 million Canadian dollar obligation through a currency swap agreement at an all-inclusive cost of 11.17%. These bonds were repaid in August 2000.

C. The PURS contain imbedded simultaneous put and call options at par. At the time of issuance, the Company sold the option to call the securities on July 15, 2006 (the reset date). If the call option is exercised, the imbedded put option is automatically triggered, resulting in the redemption of the original PURS. The call option holder will then have the right to remarket the securities at a new coupon rate for an additional 30-year term ending July 15, 2036. The new coupon rate will be determined according to a pre-set mechanism based on market conditions then prevailing. If the call option is not exercised, the put option is deemed to have been exercised, resulting in the redemption of the PURS on July 15, 2006.

D. The 20-year and 30-year notes are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

E. During 1998, the Company initiated a commercial paper program. The program enables the Company to issue commercial paper up to a maximum aggregate principal amount of $600 million or the U.S. dollar equivalent and is supported by CN's revolving credit facility. Commercial paper debt is due within one year but has been classified as long-term debt, reflecting the Company's intent and ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the revolving credit facilities. Interest rates on commercial paper range from approximately 5¾% to 6%.

F. Interest rates for the capital leases range from approximately 5½% to 14½% with maturity dates in the years 2001 through 2025. The imputed interest on these leases amounted to $559 million as at December 31, 2000, and $577 million as at December 31, 1999.

The equipment agreements are payable by monthly or semi-annual installments over various periods to 2007 at interest rates ranging from 6% to 9.7%. The principal amounts are payable as follows: $26 million and U.S.$1 million (Cdn$2 million) as at December 31, 2000, and $39 million and U.S.$12 million (Cdn$17 million) as at December 31, 1999. The capital leases, equipment agreements, and other obligations are secured by properties with a net carrying amount of $1,068 million as at December 31, 2000 and $934 million as at December 31, 1999.

G. Principal repayments for the following fiscal years, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2000 but excluding repayments of commercial paper of $77 million, are as follows:

Year	*In millions* Amount
2001	$ 434
2002	128
2003	497
2004	508
2005	216
2006 and thereafter	2,460

H. The aggregate amount of debt payable in U.S. currency as at December 31, 2000 is U.S.$2,290 million (Cdn$3,434 million) and as at December 31, 1999 is U.S.$2,332 million (Cdn$3,389 million).

I. During 2000, the Company recorded $149 million in assets and the corresponding debt on leases for new equipment ($337 million in 1999).

12 Capital stock and convertible preferred securities

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value issuable in series
- Unlimited number of Class B Preferred Shares, without par value issuable in series

B. Issued and outstanding common shares

During 2000, the Company issued 1.2 million shares related to stock options exercised. The total number of common shares issued and outstanding was 190.6 million as at December 31, 2000.

During 1999, the Company issued 9.2 million common shares as a result of the June 23, 1999 public offering. The Company also issued 1.4 million shares related to stock options exercised.

C. Convertible preferred securities

In 1999, the Company issued 4.6 million convertible preferred securities at U.S.$50 per security. These securities are subordinated securities convertible into common shares of CN at the option of the holder at an original conversion price of U.S.$38.48 per common share, representing an original conversion rate of 1.2995 common shares for each convertible preferred security. On or after July 1, 2002, at the option of CN but subject to certain conditions, the holders' rights to convert these securities may be extinguished if the current market price exceeds 120% of the conversion price for a certain period. These securities bear interest, payable quarterly in U.S. dollars, at a rate of 5.25% per year, and are due on June 30, 2029.

12 Capital stock and convertible preferred securities *(continued)*

D. Stock split

On July 20, 1999, the Board of Directors of the Company approved a two-for-one common stock split which was effected in the form of a stock dividend of one additional common share of CN common stock payable for each share outstanding or held in treasury on September 27, 1999 to shareholders of record on September 23, 1999. All equity based benefit plans reflect the issuance of additional shares or options due to the declaration of the stock split. All shares and per share data reflect the effect of the stock split.

E. Share repurchase programs

In 2000, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. During 2000, $529 million was used to repurchase 13 million common shares at an average price of $40.70 per share.

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 10 million common shares of the Company's common stock between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices.

13 Stock plans

A. Employee share plan

In 1997, an Employee Share Investment Plan (ESIP) was implemented giving eligible employees the opportunity to subscribe for up to 6% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employee's behalf, a further 35% of the amount invested by the employee. Participation at December 31, 2000 was 7,916 employees (7,359 at December 31, 1999). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 637,531 in 2000 and 375,681 in 1999, resulting in a pre-tax charge to income of $6 million, $5 million and $3 million for the years ended December 31, 2000, 1999 and 1998, respectively.

B. Stock options

The Company has stock option plans for eligible managers to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options are exercisable during a period not to exceed 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At December 31, 2000, an additional 7.7 million common shares remained authorized for future issuances under these plans.

Options issued by the Company include conventional options, which vest over a period of time, and performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment. The total conventional and performance options outstanding at December 31, 2000 were 5.6 million and 3.3 million, respectively.

Changes in the Company's stock options are as follows:

	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 1997	3.6	$ 19.43
Conversion of IC options	3.0	U.S.$ 22.57
Granted	1.3	$ 37.35
Canceled	(0.4)	$ 20.22
Exercised	(0.4)	$ 19.42
Outstanding at December 31, 1998 (1)	7.1	$ 29.11
Granted	3.0	$ 45.46
Canceled	(0.4)	$ 34.51
Exercised	(1.4)	$ 25.43
Outstanding at December 31, 1999 (1)	8.3	$ 34.88
Granted	2.2	$ 35.33
Canceled	(0.4)	$ 36.23
Exercised	(1.2)	$ 22.19
Outstanding at December 31, 2000 (1)	**8.9**	**$34.95**

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

Stock options outstanding and exercisable as at December 31, 2000 were as follows:

	Options outstanding				Options exercisable	
	Range of exercise prices	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Number of options	Weighted-average exercise price
		In millions			*In millions*	
Options granted in 1995	$13.50	0.4	3	$ 13.50	0.4	$ 13.50
Options granted in 1996	$18.52–$23.72	0.3	3	$ 18.69	0.3	$ 18.69
Options granted in 1997	$24.85–$38.75	0.6	4	$ 28.43	0.4	$ 28.45
Options granted in 1998 (1)	$16.79–$46.25	2.8	6	$ 30.63	2.5	$ 30.74
Options granted in 1999	$36.14–$49.45	2.7	8	$ 45.47	0.6	$ 45.21
Options granted in 2000	$34.91–$48.50	2.1	9	$ 35.34	0.1	$ 35.01
Balance at December 31, 2000 (1)		**8.9**	**7**	**$34.95**	**4.3**	**$30.31**

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

C. Stock-based compensation expense

Compensation expense for certain performance-based stock-option awards under these plans is determined by the options' intrinsic value in accordance with APB 25, "Accounting for Stock Issued to Employees," and related interpretations. Compensation expense recognized for stock-based awards was $3 million, $7 million and $13 million in 2000, 1999 and 1998, respectively. Had compensation expense been determined based upon fair values at the date of grant for awards under all plans, consistent with the methods of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's pro forma net income and earnings per share would have been as follows:

Year ended December 31,	**2000**	1999	1998
Net income *(in millions)*	**$ 917**	$ 740	$ 270
Basic earnings per share	**$4.70**	$3.75	$1.47
Diluted earnings per share	**$4.58**	$3.68	$1.46

These pro forma amounts include compensation cost as calculated using the Black-Scholes option pricing model with the following assumptions:

Year ended December 31,	**2000**	1999	1998
Expected option life *(years)*	**7.0**	7.0	7.0
Risk-free interest rate	**5.38%**	6.64%	5.52%
Expected stock price volatility	**30%**	30%	30%
Average dividend per share	**$ 0.70**	$ 0.60	$ 0.53

Year ended December 31,	**2000**	1999	1998
Weighted average fair value of options granted	**$12.54**	$18.93	$14.36

14 Pensions

The Company has retirement benefit plans under which substantially all employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The tables that follow pertain to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan (the Pension Plan). The Company's other pension plans are not significant.

Description of plan

The Pension Plan is a contributory defined benefit pension plan that covers substantially all CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain (loss) sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Pension Plan and the related legislation.

Funding policy

Employee contributions to the Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

14 Pensions *(continued)*

Description of fund assets

The assets of the Pension Plan are accounted for separately in the CN Pension Trust Funds. These assets consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and oil and gas assets.

(a) Change in benefit obligation

In millions *Year ended December 31,*	2000	1999
Benefit obligation at beginning of year	$ 9,935	$10,540
Actuarial (gain) loss	730	(746)
Interest cost	690	632
Plan participants' contributions	74	73
Service cost	70	95
Foreign currency changes	3	(3)
Benefit payments and transfers	(647)	(656)
Benefit obligation at end of year	$10,855	$ 9,935

(b) Change in plan assets

In millions *Year ended December 31,*	2000	1999
Fair value of plan assets at beginning of year	$11,768	$10,728
Actual return on plan assets	1,198	1,567
Plan participants' contributions	74	73
Employer contributions	59	59
Foreign currency changes	3	(3)
Benefit payments and transfers	(647)	(656)
Fair value of plan assets at end of year	$12,455	$11,768

(c) Funded status

In millions *December 31,*	2000	1999
Excess of fair value of plan assets over benefit obligation at end of year (1)	$1,600	$1,833
Unrecognized net actuarial gain (1)	(1,652)	(1,976)
Unrecognized net transition obligation	59	78
Unrecognized prior service cost	153	172
Net amount recognized	$ 160	$ 107

(1) Subject to future reduction for gain sharing under the terms of the plan.

(d) Amount recognized in the Consolidated Balance Sheet

In millions *December 31,*	2000	1999
Prepaid benefit cost	$ 166	$ 113
Accrued benefit cost	(6)	(6)
Net amount recognized	$ 160	$ 107

(e) Components of net periodic benefit cost

In millions *Year ended December 31,*	2000	1999	1998
Interest cost	$690	$632	$629
Service cost	70	95	81
Amortization of net transition obligation	19	19	21
Amortization of prior service cost	19	20	20
Expected return on plan assets	(792)	(732)	(701)
Recognized net actuarial loss	–	23	–
Net periodic benefit cost	$ 6	$ 57	$ 50

(f) Weighted-average assumptions

December 31,	2000	1999	1998
Discount rate	6.50%	7.00%	6.00%
Rate of compensation increase	4.25%	4.25%	4.25%
Expected return on plan assets for year ending December 31	9.00%	9.00%	9.00%

15 Special charge

The Company recorded a charge to operations of $590 million in 1998 for workforce reduction plans aimed at reducing future operating costs and increasing productivity. The charge includes severance and other payments to be made for approximately 3,000 reductions (1,400 occurred in 1998; 1,300 occurred in 1999; and the remainder occurred in 2000). Labor productivity and operating efficiency initiatives span the entire organization with reductions in the administration, transportation, engineering and equipment functions. The majority of the remaining payments related to workforce reductions are expected to be disbursed within the next five years.

16 Interest expense

In millions *Year ended December 31,*	2000	1999	1998
Interest on long-term debt	$322	$319	$257
Interest on short-term borrowings	–	–	2
Interest income	(11)	(5)	(17)
	$311	$314	$242
Cash interest payments	$315	$311	$192

17 Other income

In millions *Year ended December 31,*	2000	1999	1998
Gain on exchange of investment *(Note 7)*	$ 84	$ –	$ –
Gain on disposal of properties	57	56	51
Investment income	10	21	20
Foreign exchange gain (loss)	10	4	(26)
Net rental loss	(22)	(25)	(20)
Equity in earnings of IC *(Note 4 (A))*	–	–	105
Other	(3)	(1)	(8)
	$136	$ 55	$122

18 Income taxes

The Company's income tax expense from income before cumulative effect of changes in accounting policy is as follows:

In millions *Year ended December 31,*	2000	1999	1998
Federal tax rate	29.1%	29.1%	29.1%
Income tax expense from income before income taxes and the cumulative effect of changes in accounting policy based on the Federal tax rate	$(429)	$(352)	$(87)
Income tax (expense) recovery resulting from:			
Provincial and other taxes	(180)	(196)	(63)
U.S. tax rate differential	9	38	–
Gain on disposals and dividends	18	8	8
Equity in earnings of IC	–	–	47
Other	46	40	21
Income tax expense	$(536)	$(462)	$ (74)
Income tax expense is represented by:			
Current	$(224)	$ (45)	$ (18)
Deferred	(312)	(417)	(56)
	$(536)	$(462)	$ (74)
Cash payments for income taxes	$ 101	$ 45	$ 18

Significant components of deferred income tax assets and liabilities are as follows:

In millions *December 31,*	2000	1999
Deferred income tax assets		
Workforce reduction provisions	$ 202	$ 266
Accruals and other reserves	198	186
Post-retirement benefits	91	89
Losses and tax credit carryforwards	26	39
	517	580
Deferred income tax liabilities		
Properties	3,778	3,409
Total net deferred income tax liability	3,261	2,829
Net current deferred income tax asset	114	146
Net long-term deferred income tax liability	$3,375	$2,975

19 Segmented information

A. Geographic areas

The Company operates in one business segment with operations and assets in Canada and the United States.

B. Information on geographic areas

In millions *Year ended December 31,*	2000	1999	1998
Revenues:			
Canadian rail	$ 3,650	$ 3,524	$ 3,500
U.S. rail	1,778	1,712	578
	$ 5,428	$ 5,236	$ 4,078
Operating income:			
Canadian rail	$ 1,199	$ 1,015	$ 381
U.S. rail	449	452	37
	$ 1,648	$ 1,467	$ 418
Income (loss) before cumulative effect of changes in accounting policy:			
Canadian rail	$ 695	$ 565	$ 225
U.S. rail	242	181	(106)
Equity in earnings of IC	–	–	105
	$ 937	$ 746	$ 224
Depreciation and amortization:			
Canadian rail *(i)*	$ 336	$ 294	$ 304
U.S. rail	197	202	15
	$ 533	$ 496	$ 319
Capital expenditures: (ii)			
Canadian rail *(iii)*	$ 802	$ 954	$ 787
U.S. rail	310	324	84
	$ 1,112	$ 1,278	$ 871

In millions *December 31,*	2000	1999
Identifiable assets:		
Canadian rail	$ 8,712	$ 8,203
U.S. rail	8,602	8,227
	$17,314	$16,430

(i) Includes $8 million (1999: $6 million, 1998: $3 million) depreciation and amortization of properties related to other business activities.

(ii) Represents additions to properties.

(iii) Includes $9 million (1999: $11 million, 1998: $17 million) of additions to properties related to other business activities. This amount also includes non-cash capital expenditures financed with capital leases and capitalized depreciation.

20 Earnings per share

Year ended December 31,	2000	1999	1998
Basic earnings per share			
Income before cumulative effect of changes in accounting policy	$4.81	$3.78	$1.22
Cumulative effect of changes in accounting policy	–	0.03	0.23
Net income	$4.81	$3.81	$1.45
Diluted earnings per share			
Income before cumulative effect of changes in accounting policy	$4.67	$3.71	$1.21
Cumulative effect of changes in accounting policy	–	0.03	0.23
Net income	$4.67	$3.74	$1.44

The following table provides a reconciliation between basic and diluted earnings per share:

In millions, except per share data *Year ended December 31,*	2000	1999	1998
Income before cumulative effect of changes in accounting policy	$ 937	$ 746	$ 224
Income impact on assumed conversion of preferred securities	11	6	–
	$ 948	$ 752	$ 224
Weighted-average shares outstanding	195.0	197.3	183.1
Effect of dilutive securities and stock options	7.8	5.2	1.7
Weighted-average diluted shares outstanding	202.8	202.5	184.8
Basic earnings per share from income before cumulative effect of changes in accounting policy	$ 4.81	$ 3.78	$ 1.22
Diluted earnings per share from income before cumulative effect of changes in accounting policy	$ 4.67	$ 3.71	$ 1.21

Pro forma amounts assuming retroactive application of new accounting policies:

In millions, except per share data *Year ended December 31,*	1999	1998
Income before cumulative effect of changes in accounting policy	$ 746	$ 214
Basic earnings per share	$3.78	$1.17
Diluted earnings per share	$3.71	$1.16
Net income	$ 746	$ 214
Basic earnings per share	$3.78	$1.17
Diluted earnings per share	$3.71	$1.16

21 Major commitments and contingencies

A. Leases

The Company's commitments as at December 31, 2000 under operating and capital leases totaling $871 million and $1,439 million, respectively, with annual net minimum payments in each of the five following fiscal years to 2006 and thereafter, are as follows:

Year *In millions*	Operating	Capital
2001	$185	$ 163
2002	157	117
2003	123	101
2004	107	120
2005	83	92
2006 and thereafter	216	846
	$871	1,439
Less: imputed interest on capital leases at rates ranging from approximately 5½% to 14½%		559
Present value of minimum lease payments at current rate included in debt		$ 880

B. Other commitments

As at December 31, 2000, the Company had commitments to acquire freight cars at an aggregate cost of $13 million, rail at a cost of $28 million and railroad ties at a cost of $25 million. Furthermore, as at December 31, 2000, the Company had entered into car repair commitments totaling $10 million for the years 2001 and 2002 and agreements with fuel suppliers to purchase approximately 46% of its anticipated 2001 volume and 36% of its anticipated 2002 volume at market prices prevailing on the date of the purchase.

C. Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 2000 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

D. Environmental matters

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;

(iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;

(iv) the ability to recover costs from any third parties with respect to particular sites; and

therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at December 31, 2000, the Company had aggregate accruals for environmental costs of $85 million ($96 million as at December 31, 1999). During 2000, $11 million was applied to the provision for environmental costs compared to $16 million in 1999 and $11 million in 1998. In addition, related environmental capital expenditures were $20 million in 2000, $11 million in 1999 and $13 million in 1998. The Company also expects to incur capital expenditures relating to environmental matters of approximately $30 million in each of 2001, 2002 and 2003. The Company has not included any reduction in costs for anticipated recovery from insurance.

E. Labor negotiations

Approximately 80% of the Company's workforce is comprised of unionized employees. As of February 2001, approximately 70% of these employees either have bargaining agreements that have expired or are covered by a bargaining agreement that will expire in 2001.

22 Financial instruments

A. Risk management

The Company has limited involvement with derivative financial instruments in the management of its fuel, interest rate and foreign currency exposures, and does not use them for trading purposes.

(i) Credit risk

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not expect such non-performance as counterparties are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored. The total risk associated with the Company's counterparties was immaterial at December 31, 2000. The Company believes there are no significant concentrations of credit risk.

(ii) Interest rates

In 2000, the Company entered into interest rate swap transactions for a total notional amount of $150 million and U.S.$50 million (Cdn$75 million) resulting in effectively converting some fixed interest rate debt into floating interest rate debt. As at December 31, 2000, there was no material change in the fair value of the swaps.

(iii) Foreign currency

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

22 Financial instruments *(continued)*

The Company has designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. Effective October 1, 2000, the Company's foreign exchange hedge of its net investments in foreign operations has been extended to include all U.S. subsidiaries. As a result, from the dates of designation, unrealized foreign exchange gains and losses on the translation of the Company's U.S. dollar denominated debt are recorded in Other comprehensive income.

(iv) Fuel

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. Various swaps and collar agreements are in place to mitigate the risk of fuel price volatility. To further reduce the earnings volatility resulting from variations in the price of fuel, the Company has adopted a systematic approach to its hedging activities which calls for regularly entering into positions to cover a target percentage of future fuel consumption up to two years in advance.

The realized gains at December 31, 2000 and 1999 were $49 million and $5 million, respectively. Hedging positions and credit ratings of counterparties are monitored and losses due to counterparty non-performance are not anticipated. At December 31, 2000, the Company has hedged approximately 33% of the estimated 2001 fuel consumption and 23% of the estimated 2002 fuel consumption. This represented approximately 200 million U.S. gallons at an average price of U.S.$0.6343 per U.S. gallon. Unrecognized gains or losses from the Company's fuel hedging activities were $17 million loss and $9 million gain as at December 31, 2000 and 1999, respectively.

B. Fair value of financial instruments

Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following indicated captions:

(i) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued charges, and Other current liabilities:

The carrying amounts approximate fair value because of the short maturity of these instruments.

(ii) Other assets and deferred charges:

Investments: The Company has various debt and equity investments for which the carrying value approximates the fair value, with the exception of an investment for which the fair value was estimated based on CN's proportionate share of its accumulated earnings.

(iii) Long-term debt:

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity.

(iv) Convertible preferred securities:

The fair value of the Company's convertible preferred securities is estimated based on the quoted market price.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 2000 and 1999 for which the carrying values are not disclosed on the Consolidated Balance Sheet or for which the carrying amounts are different from the fair values:

In millions	*December 31, 2000*		*December 31, 1999*	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Investments	**$ 269**	**$ 315**	$ 22	$ 42
Financial liabilities				
Long-term debt (including current portion)	**$4,320**	**$4,191**	$4,219	$4,092
Convertible preferred securities	**$ 345**	**$ 315**	$ 334	$ 281

23 Other comprehensive income (loss)

A. Components of Other comprehensive income (loss) and the related tax effects are as follows:

In millions	*Year ended December 31, 2000*		
	Before tax amount	**Income tax (expense) recovery**	**Net of tax amount**
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	$ (91)	$ 34	$ (57)
Unrealized foreign exchange gain (loss) on translation of the net investment in U.S. subsidiaries	191	(71)	120
Unrealized holding gain on investment in 360networks Inc. *(Note 7)*	129	(35)	94
Other comprehensive income (loss)	$229	$(72)	$157

In millions	Year ended December 31, 1999 Before tax amount	Income tax (expense) recovery	Net of tax amount
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in IC	$ 180	$ (69)	$ 111
Unrealized foreign exchange gain (loss) on translation of the net investment in IC	(202)	78	(124)
Minimum pension liability adjustment	2	(1)	1
Other comprehensive income (loss)	$ (20)	$ 8	$ (12)

In millions	Year ended December 31, 1998 Before tax amount	Income tax (expense) recovery	Net of tax amount
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in IC	$(246)	$ 102	$(144)
Unrealized foreign exchange gain (loss) on translation of the net investment in IC	259	(108)	151
Minimum pension liability adjustment	(2)	1	(1)
Other comprehensive income (loss)	$ 11	$ (5)	$ 6

B. Changes in the balances of each classification within Accumulated other comprehensive income (loss) are as follows:

In millions	Foreign exchange U.S. $ debt	Foreign exchange net investment in U.S. subsidiaries	Holding gain 360networks Inc. investment	Minimum pension liability adjustment	Accumulated other comprehensive income (loss)
Balance at January 1, 1998	$ –	$ –	$ –	$ –	$ –
Period change	(144)	151	–	(1)	6
Balance at December 31, 1998	(144)	151	–	(1)	6
Period change	111	(124)	–	1	(12)
Balance at December 31, 1999	(33)	27	–	–	(6)
Current period change	(57)	120	94	–	157
Balance at December 31, 2000	$ (90)	$147	$94	$ –	$151

24 Illinois Central Railroad Company consolidated financial information

The Company has fully and unconditionally guaranteed certain publicly issued debt of Illinois Central Railroad Company (ICRR). Consequently, the Company has not presented separate financial statements and other disclosures, other than those presented below, because management has determined that such information is not material to the holders of ICRR debt.

Summary financial information for ICRR, on its historical cost basis, for the years ended December 31, 2000, 1999 and 1998, and as at December 31, 2000 and 1999, is presented below.

Illinois Central Railroad Company Condensed Consolidated Statement of Income

In millions of U.S.$ *Year ended December 31,*	2000	1999	1998
Revenues	**$685**	$662	$645
Operating expenses	**561**	519	436
Operating income	**124**	143	209
Interest expense	**(64)**	(48)	(28)
Other income	**37**	4	11
Income before income taxes	**97**	99	192
Income tax expense	**(35)**	(37)	(71)
Net income	**$ 62**	$ 62	$121

The 2000 and 1999 operating expenses include revised estimates related to legal, casualty and other expenses that form part of the purchase accounting adjustments on consolidation.

Illinois Central Railroad Company Condensed Consolidated Balance Sheet

In millions of U.S.$ *December 31,*	2000	1999
Assets		
Current assets	**$ 98**	$ 220
Non-current assets	**1,890**	1,735
Total assets	**$1,988**	$1,955
Liabilities and shareholder's equity		
Current liabilities	**$ 333**	$ 282
Payable to affiliate	**578**	578
Long-term debt	**409**	512
Deferred income taxes	**329**	337
Other liabilities and reserves	**202**	171
Shareholder's equity	**137**	75
Total liabilities and shareholder's equity	**$1,988**	$1,955

25 Quarterly financial data – unaudited

In millions, except per share data

	2000				1999			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Revenues	$1,393	$1,330	$1,333	$1,372	$1,387	$1,281	$1,299	$1,269
Operating income	$ 441	$ 407	$ 418	$ 382	$ 407	$ 374	$ 391	$ 295
Net income	$ 237	$ 216	$ 230	$ 254	$ 213	$ 199	$ 195	$ 144
Basic earnings per share								
Income before cumulative effect of changes in accounting policy	$ 1.24	$ 1.12	$ 1.18	$ 1.27	$ 1.05	$ 0.99	$ 1.01	$ 0.72
Net income	$ 1.24	$ 1.12	$ 1.18	$ 1.27	$ 1.05	$ 0.99	$ 1.01	$ 0.75
Diluted earnings per share								
Income before cumulative effect of changes in accounting policy	$ 1.20	$ 1.09	$ 1.15	$ 1.24	$ 1.03	$ 0.96	$ 1.00	$ 0.72
Net income	$ 1.20	$ 1.09	$ 1.15	$ 1.24	$ 1.03	$ 0.96	$ 1.00	$ 0.74
Dividend declared per share	$0.175	$0.175	$0.175	$0.175	$ 0.15	$ 0.15	$ 0.15	$ 0.15

26 Comparative figures

Certain figures, previously reported for 1999 and 1998, have been reclassified to conform with the basis of presentation adopted in the current year.

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Management's Discussion and Analysis

Management's discussion and analysis relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including Grand Trunk Corporation and Illinois Central Corporation (IC). As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles (Canadian GAAP).

Financial results

2000 compared to 1999

The Company recorded consolidated net income of $772 million ($3.90 per basic share) for the year ended December 31, 2000 compared to $602 million ($3.02 per basic share) for the year ended December 31, 1999. Diluted earnings per share were $3.81 for the current year compared to $2.97 in 1999.

In 2000, the Company recorded a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share) related to the exchange of its minority equity investments in certain joint venture companies for common shares in 360networks Inc. Excluding the effect of this item, consolidated net income was $714 million ($3.60 per basic share or $3.53 per diluted share) for the year ended December 31, 2000.

Operating income was $1,385 million for 2000 compared to $1,233 million in 1999. This represents an increase of $152 million, or 12%. The operating ratio in 2000 was 74.6% compared to 76.6% in 1999.

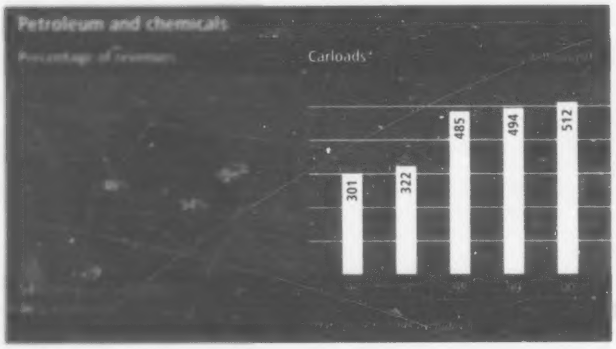
Revenues

Revenues for the year ended December 31, 2000 totaled $5,446 million compared to $5,261 million in 1999. The increase of $185 million, or 4%, was mainly attributable to gains in automotive, intermodal and grain and fertilizers. This was partially offset by lower coal revenues. Revenue ton miles increased by 4% as compared to 1999 while freight revenue per revenue ton mile remained flat.

Year ended December 31,	2000	1999	2000	1999	2000	1999
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 894	$ 878	24,858	24,194	3.60	3.63
Metals and minerals	392	398	9,207	9,271	4.26	4.29
Forest products	1,008	995	28,741	27,500	3.51	3.62
Coal	328	402	15,734	18,645	2.08	2.16
Grain and fertilizers	1,136	1,066	42,396	38,681	2.68	2.76
Intermodal	919	810	25,456	22,589	3.61	3.59
Automotive	559	483	3,165	2,733	17.66	17.67
Other items	210	229	–	–	–	–
Total	$5,446	$5,261	149,557	143,613	3.50	3.50

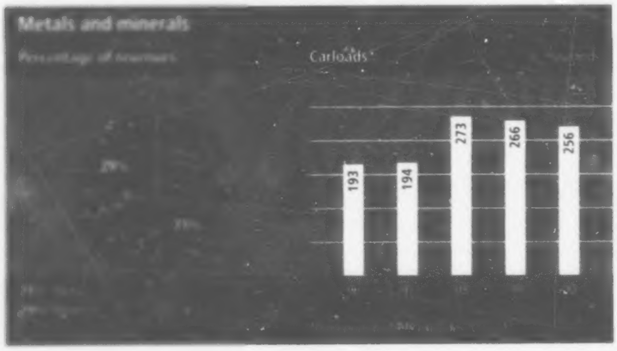
Petroleum and chemicals

Revenues for the year ended December 31, 2000 increased by $16 million, or 2%, over 1999. Growth for the year was mainly due to increased demand for petroleum gas, industrial chemicals and petrochemicals. Growth was also driven by increased production from plant expansions in the petroleum products segments. Weak market demand for polyvinyl chloride (PVC plastics) and related chemicals and sulfur exports to the United States partially offset these gains. The revenue per revenue ton mile decrease of 1% for the year was mainly due to changes in some contract and rate structures.



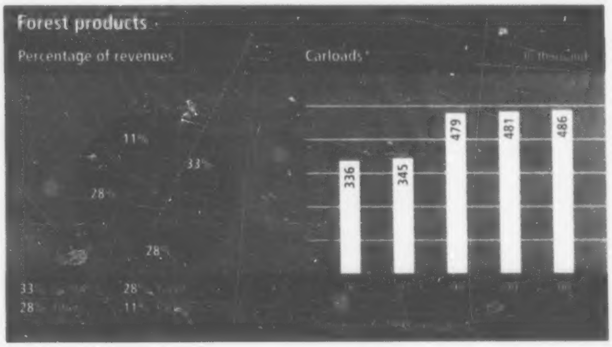
Metals and minerals

Revenues for the year ended December 31, 2000 decreased by $6 million, or 2%, as compared to 1999. The decline for the year reflects lower finished steel shipments due, in particular, to fewer pipeline projects in western Canada and customer production shutdowns in 2000. This is partially offset by market share gains in, as well as strength from, both the overall steel markets in the first half of 2000 and concentrate markets during the year. The revenue per revenue ton mile decrease of 1% for the year was mainly due to an increase in the average length of haul.



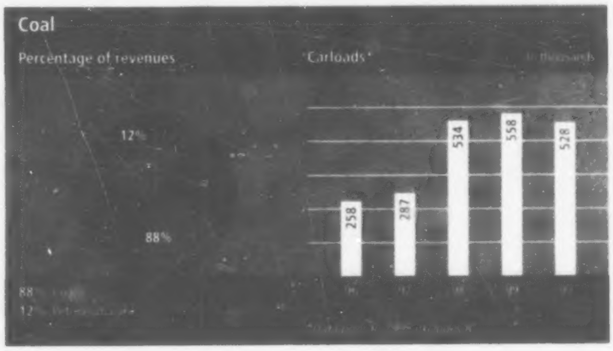
Forest products

Revenues for 2000 grew by $13 million over 1999, representing a 1% increase. Market share gains, as well as solid demand in the paper segment, drove growth in the year. Declining lumber shipments due to weaker commodity prices and fewer housing starts in the United States compared to 1999 partially offset these gains. The revenue per revenue ton mile decrease of 3% for the year can be attributed to an increase in the average length of haul. Rate pressure as a result of consolidations in the forest products industry was also a contributing factor.



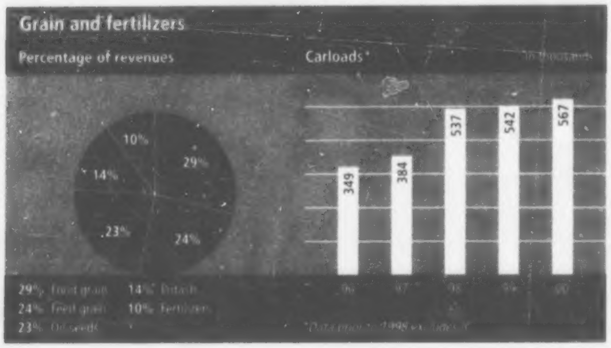
Coal

Revenues for the year ended December 31, 2000 decreased by $74 million, or 18%, from 1999. Continued weak market conditions for Canadian export coal resulted in lower shipments from, and closures of, certain CN-served coal mines. This was compounded by further rate reductions which were tied to coal prices. The revenue per revenue ton mile decrease of 4% for the year was mainly due to reduced freight rates tied to contracted coal prices.



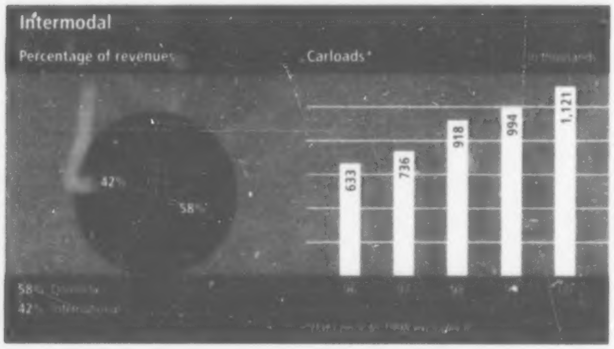
Grain and fertilizers

Revenues for 2000 increased by $70 million, or 7%, over 1999. The increase for the year was mainly driven by strong Canadian wheat and barley exports, as well as U.S. and Canadian oil seed exports. Revenue per revenue ton mile decreased by 3% for the year mainly due to a decline in grain rates in Canada and a shift to longer haul traffic.



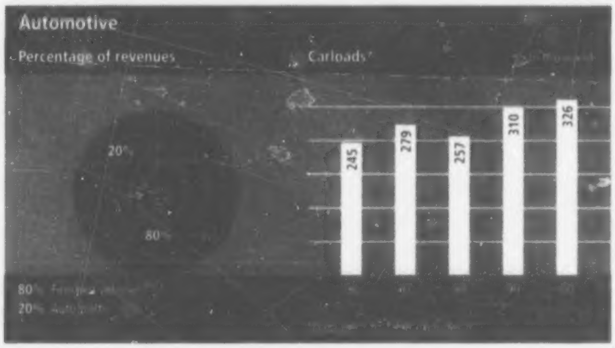
Intermodal

Revenues in 2000 increased by $109 million, or 13%, in comparison to the year ended December 31, 1999. Increased container trade through the ports of Vancouver and Halifax and market share gains drove the growth in the international segment. The domestic segment benefited from strength in the North American economy as well as market share gains through enhanced service offerings. The revenue per revenue ton mile increase of 1% for the year is mainly due to a shift to higher yielding traffic.



Automotive

Revenues for the year ended December 31, 2000 increased by $76 million, or 16%, over 1999. The increase in revenues for the year reflects strong North American vehicle sales during the first nine months of 2000 and market share gains due, in part, to competitors' service problems. The revenue per revenue ton mile for the year remained relatively unchanged despite an increase in the average length of haul, due to growth of higher yielding traffic.



Other items

Revenues for the year ended December 31, 2000 decreased by $19 million over 1999. The majority of the 8% decrease was attributable to a non-recurring branch line subsidy payment from the Canadian Transportation Agency (CTA) received in 1999 relating to a claim for unprofitable lines. This was partially offset by increased revenues in 2000 for commuter services.

Operating expenses

Operating expenses amounted to $4,061 million in 2000 compared to $4,028 million in 1999. Operating expenses remained relatively flat with an increase of $33 million, or less than 1%, due predominantly to significantly higher fuel costs and depreciation, partially offset by reductions in all other expense categories.

Dollars in millions *Year ended December 31,*	2000		1999	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,684	30.9%	$1,711	32.5%
Purchased services	595	10.9%	591	11.2%
Depreciation and amortization	412	7.6%	400	7.6%
Fuel	450	8.3%	309	5.9%
Equipment rents	291	5.4%	335	6.4%
Material	263	4.8%	260	5.0%
Operating taxes	158	2.9%	173	3.3%
Casualty and other	208	3.8%	249	4.7%
Total	$4,061	74.6%	$4,028	76.6%

Labor and fringe benefits: Labor and fringe benefit expenses in 2000 decreased by $27 million, or 2%, as compared to 1999. The decrease was mainly attributable to the Company's reduced workforce and lower pension related expenses, partially offset by wage increases in 2000.

Purchased services: Costs of purchased services increased by $4 million, or 1%, in 2000 as compared to 1999. The increase was mainly due to higher consulting and professional fees related to the terminated CN-Burlington Northern Santa Fe (BNSF) combination. This was partially offset by a new directional running agreement and higher recoveries from joint facilities.

Depreciation and amortization: Depreciation and amortization expense in 2000 increased by $12 million, or 3%, as compared to 1999. The increase was due to the impact of net capital additions and the acquisition, at the end of 1999, of certain equipment formerly under operating leases.

Fuel: Fuel expense in 2000 increased by $141 million, or 46%, as compared to 1999. This was largely due to a 43% increase in the average fuel price (net of the Company's fuel hedging program) as well as an increase in traffic volumes. An improvement in fuel efficiency partially offset the higher fuel costs.

Equipment rents: These expenses decreased by $44 million, or 13%, in 2000 as compared to 1999. The decrease was mainly attributable to continuing improvements in asset utilization as a result of the Company's service plan and the acquisition of certain equipment formerly under operating leases. This was partially offset by higher volumes and more foreign cars on-line.

Material: Material costs in 2000 remained relatively unchanged from the 1999 level with only a 1% increase.

Operating taxes: Operating taxes decreased by $15 million, or 9%, in 2000, mainly as a result of lower municipal property taxes and a refund of prior years' sales tax. This was partially offset by higher diesel fuel taxes resulting from increased volumes.

Casualty and other: These expenses decreased by $41 million, or 16%, in 2000 as compared to 1999. Lower expenses for environmental matters, damaged equipment as well as various one-time recoveries largely drove the decrease. This was partially offset by higher casualty and legal costs and bad debt expense.

Other

Interest expense: Interest expense of $295 million for the year ended December 31, 2000 remained relatively unchanged from the 1999 level.

Other income: In 2000, the Company recorded other income of $124 million compared to $46 million in 1999. This increase was mainly due to the Company's gain on the exchange of its minority equity investments in certain joint venture companies for shares of 360networks Inc.

Income tax expense: The Company recorded an income tax expense for the current year of $442 million compared to $369 million in 1999. The effective income tax rate was 36.4% for 2000 and 38.0% in 1999. The reduced effective tax rate in 2000 reflects lower overall income taxes applicable to CN and its subsidiaries' operations in certain jurisdictions.

1999 compared to 1998

Where applicable and for comparative purposes only, management's discussion and analysis of the financial results when comparing 1999 to 1998 has also been provided using 1998 pro forma figures as presented in Note 4 to the 1999 consolidated financial statements. As used herein, 1998 pro forma refers to the consolidation of the results of operations of IC, assuming the acquisition and control of IC occurred on January 1, 1998.

The Company recorded consolidated net income of $602 million ($3.02 per basic share) for the year ended December 31, 1999 compared to $109 million ($0.60 per basic share), or $132 million ($0.69 per basic share) on a pro forma basis, for the year ended December 31, 1998. Diluted earnings per share were $2.97 in 1999 compared to $0.59 ($0.68 pro forma) in 1998.

In 1998, the Company recorded a special charge of $590 million, $345 million after tax ($1.88 per basic share, $1.80 per basic share pro forma or $1.87 per diluted share, $1.79 per diluted share pro forma), for workforce reductions. Excluding the effect of this item, consolidated net income was $454 million ($2.48 per basic share or $2.46 per diluted share), or $477 million ($2.49 per basic share or $2.47 per diluted share) on a pro forma basis, for the year ended December 31, 1998.

Operating income was $1,233 million for 1999 compared to $247 million ($480 million pro forma) in 1998. When compared to 1998 operating income of $837 million ($1,070 million pro forma), excluding the special charge, 1999 operating income increased by $396 million, or 47% ($163 million, or 15% pro forma). The operating ratio in 1999 was 76.6% compared to 79.6% (79.3% pro forma) in 1998, excluding the special charge.

Revenues

Revenues for the year ended December 31, 1999 totaled $5,261 million as compared to $4,101 million in 1998, an increase of $1,160 million, or 28%, mainly attributable to the consolidation of IC's operating results in 1999.

When compared to 1998 pro forma revenues of $5,160 million, annual revenues increased by $101 million, or 2%. The increase was mainly due to higher revenues in automotive, petroleum and chemicals, and intermodal, partially offset by coal. Revenue ton miles increased by 4% while freight revenue per revenue ton mile decreased by 2%.

The 1998 data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual business units are discussed and analyzed solely using the 1998 pro forma figures.

Year ended December 31,	1999	1998	1999	1998	1999	1998
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 878	$ 851	24,194	22,100	3.63	3.85
Metals and minerals	398	408	9,271	9,970	4.29	4.09
Forest products	995	979	27,500	26,220	3.62	3.73
Coal	402	474	18,645	19,907	2.16	2.38
Grain and fertilizers	1,066	1,068	38,681	37,904	2.76	2.82
Intermodal	810	790	22,589	20,353	3.59	3.88
Automotive	483	382	2,733	2,215	17.67	17.25
Other items	229	208	–	–	–	–
Total	$5,261	$5,160	143,613	138,669	3.50	3.57

Petroleum and chemicals

Revenues for the year ended December 31, 1999 increased by $27 million, or 3%, over 1998. Growth stemmed from favorable market conditions for sulfur, plastics and plastics derivatives, particularly in Canada, and strong demand for liquefied petroleum gas. The improvement was partially offset by increased short-line payments related to the Company's network rationalization program. An increased average length of haul contributed to a 6% decrease in revenue per revenue ton mile.

Metals and minerals

Revenues for the year ended December 31, 1999 decreased by $10 million as compared to 1998. The 2% decrease was driven by weak steel shipments resulting from strong offshore steel imports in the United States and Canada in the earlier part of the year. This was partially offset by the growth in construction materials traffic, in line with stronger construction activity, and stronger non-ferrous metals traffic in Canada. An increase in revenue per revenue ton mile of 5% is related to a decrease in the average length of haul.

Forest products

Revenues for 1999 increased by $16 million, or 2%, over 1998. The positive 1999 performance reflected growth in lumber and panels traffic in line with Canadian and U.S. construction markets, gradual recovery in international woodpulp markets, as well as a strike at a major paper producing customer in 1998. Increased short-line payments related to the Company's network rationalization program partially offset the 1999 improvements. A shift to longer haul traffic contributed to the decrease in revenue per revenue ton mile of 3%.

Coal

Revenues for the year ended December 31, 1999 decreased by $72 million, or 15%, from 1998. The decrease in 1999 was due to weak Canadian coal exports as a result of reduced Asian steel production and contract coal price reductions. The revenue per revenue ton mile decrease of 9% was mainly attributable to reduced freight rates tied to coal prices.

Grain and fertilizers

Revenues remained essentially flat during 1999. The $2 million decrease reflects the reduction in canola oil and seed shipments consistent with market conditions and lower Canadian wheat exports in the earlier part of 1999, as well as increased short-line payments related to the Company's network rationalization program. These were offset by the increase in U.S. exports of corn through the Gulf of Mexico and of potash shipments tied to significant Canadian potash export growth in the fourth quarter of 1999. The decline in revenue per revenue ton mile of 2% mainly results from the decrease in regulated Canadian grain rates of 1.2% in August 1998.

Intermodal

Revenues in 1999 increased by $20 million, or 3%, as compared to the year ended December 31, 1998. The increase was mainly due to strength in the international segment in line with growing container trade and new traffic obtained through the Port of Vancouver. The domestic segment also contributed to this growth driven by the impact of the strong U.S. economy, partially offset by weakness in the Canadian domestic market to the west. Strong competition and a shift in traffic patterns for both the international and domestic segments resulted in a revenue per revenue ton mile decrease of 7%.

Automotive

Revenues for the year ended December 31, 1999 increased $101 million over 1998. The 26% increase in revenues is consistent with strong vehicle sales in both Canada and the United States and double-digit growth in Canadian motor vehicle exports, and reflects the impact of a strike at a major automotive manufacturer in 1998. The revenue per revenue ton mile increase of 2% is mainly due to a shift in traffic patterns and to the weakness of the Canadian dollar in the earlier part of 1999.

Other items

Revenues for the year ended December 31, 1999 increased by $21 million, or 10%, over 1998. The majority of the increase was attributable to the final branch line subsidy payment of $21 million related to the 1996 claim for unprofitable lines.

Operating expenses

Total operating expenses amounted to $4,028 million in 1999 compared to $3,854 million in 1998. When compared to 1998 operating expenses of $3,264 million, excluding the special charge for workforce reductions, 1999 operating expenses increased by $764 million, or 23%, predominantly due to the consolidation of IC's operating expenses in 1999.

Pro forma operating expenses for the year ended December 31, 1998 were $4,680 million. When compared to 1998 pro forma operating expenses of $4,090 million, excluding the special charge, 1999 operating expenses decreased by $62 million, or 2%. The decrease was mainly due to lower expenses in labor and fringe benefits, equipment rents and operating taxes, partially offset by increased purchased services costs.

The 1998 operating expense data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual operating expense categories are discussed and analyzed solely using the 1998 pro forma figures.

Dollars in millions — *Year ended December 31,*	1999		1998	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,711	32.5%	$1,790	34.7%
Purchased services	591	11.2%	531	10.3%
Depreciation and amortization	400	7.6%	391	7.6%
Fuel	309	5.9%	318	6.2%
Equipment rents	335	6.4%	363	7.0%
Material	260	5.0%	267	5.2%
Operating taxes	173	3.3%	201	3.9%
Casualty and other	249	4.7%	229	4.4%
	4,028	76.6%	4,090	79.3%
Special charge	–		590	
Total	$4,028		$4,680	

Labor and fringe benefits: Labor and fringe benefit expenses in 1999 decreased by $79 million, or 4%, as compared to 1998. The majority of the decrease was attributable to the Company's reduced workforce and higher workers' compensation costs in 1998, partially offset by increased 1999 salary and benefit costs.

Purchased services: Costs of purchased services increased by $60 million, or 11%, for 1999 as compared to 1998. The increase was mainly due to higher consulting and integration costs, outsourcing fees as well as $20 million incurred in the fourth quarter of 1999 for costs related to the proposed combination of CN and BNSF.

Depreciation and amortization: Depreciation and amortization expense in 1999 increased by $9 million, or 2%, as compared to 1998, mainly due to the impact of capital additions.

Fuel: An improvement in fuel efficiency as well as a lower average fuel price in 1999 (including the effects of the Company's fuel hedging program) produced a decrease in fuel expense of $9 million, or 3%, in 1999.

Equipment rents: These expenses decreased by $28 million, or 8%, in 1999 due to a higher level of car hire income compared to 1998 and to a lower level of short-term leases, mainly as a result of improved asset utilization from the new service plan.

Material: Material costs decreased by $7 million, or 3%, in 1999 from the 1998 level. The decrease in 1999 was mainly as a result of lower running repairs due to a fewer number of locomotives and freight cars in service.

Operating taxes: Operating taxes decreased by $28 million, or 14%, in 1999, mainly as a result of a decrease in the Alberta statutory diesel fuel tax rate, a refund of prior years' taxes and lower municipal property tax rates in certain jurisdictions.

Casualty and other: These expenses increased by $20 million, or 9%, during 1999. The increase was largely driven by the increase in the provision for environmental costs in 1999 as well as the one-time recovery of costs from a third party in 1998. The increase was partially offset by lower costs related to legal claims in 1999.

Other

Interest expense: Interest expense for the year ended December 31, 1999 was $308 million compared to $244 million in 1998. The 1999 increase of $64 million was largely attributable to the consolidation of IC in 1999. Compared to 1998 on a pro forma basis, interest expense decreased by $25 million, mainly as a result of debt repayments from the proceeds of the common shares and convertible preferred securities issuances at the end of June 1999.

Other income: The Company consolidated the results of IC in 1999. In 1998, the Company applied the equity method of accounting for its investment in IC. Equity in the earnings of IC for the year ended December 31, 1998 was $86 million. Pro forma figures have been presented in Note 4 to the 1999 consolidated financial statements as if the Company had consolidated the results of IC on January 1, 1998.

In 1999, the Company recorded other income of $46 million compared to other income of $26 million ($32 million pro forma) in 1998, excluding the equity in earnings of IC. The increase in 1999 was mainly due to first quarter right-of-way revenues of $20 million.

Income tax expense: The Company recorded an income tax expense of $369 million in 1999 compared to income tax expense of $6 million ($47 million pro forma) in 1998. The effective income tax rate was 38.0% for 1999 and 40.6% (38.0% pro forma) in 1998, excluding the equity in earnings of IC as well as the effect of the special charge in 1998.

Liquidity and capital resources

Operating activities: Cash provided from operations was $1,128 million for the year ended December 31, 2000 compared to $962 million for 1999. Net income, excluding non-cash items, generated cash of $1,327 million in 2000, down from $1,331 million in 1999. A portion of the cash generated in 2000 and 1999 was consumed by payments with respect to workforce reductions of $189 million and $219 million, respectively. As a result of the 2000 payments, the workforce reduction accruals have been reduced to $513 million as at December 31, 2000. Cash payments with respect to these workforce reduction accruals are expected to be approximately $137 million in 2001.

Investing activities: Cash used by investing activities in 2000 amounted to $586 million compared to $557 million in 1999. Net capital expenditures amounted to $607 million for the year ended December 31, 2000, a decrease of $22 million over 1999. Capital expenditures included roadway renewal, rolling stock and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2001 will remain at approximately the same level as 2000. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at December 31, 2000, the Company had commitments to acquire freight cars at an aggregate cost of $13 million, rail at a cost of $28 million and railroad ties at a cost of $25 million.

Dividends: During 2000, the Company paid dividends totaling $149 million to its shareholders at the rate of $0.175 per share per quarter on the common shares and 5.25% per year on the convertible preferred securities.

Financing activities: Cash used by financing activities totaled $681 million for the year ended December 31, 2000 compared to $288 million in 1999. The Company used $529 million in 2000 to repurchase common shares as part of the share repurchase program. During 2000, the Company recorded $149 million in capital lease obligations ($235 million in 1999) for capital leases related to new equipment and the exercise of purchase options on existing equipment.

Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and Wisconsin Central Transportation Corporation (WC) entered into a merger agreement (the Merger), providing for the acquisition of WC by the Company for a purchase price of approximately $1,200 million (U.S.$800 million or U.S.$17.15 per share) payable in cash. The acquisition will be initially financed by debt and cash on hand.

The Merger is subject to, among other things, approval by the shareholders of WC. WC shareholders are expected to vote on the proposed Merger during the first half of 2001.

In accordance with the terms of the Merger, the Company's obligation to consummate the Merger is subject to the Company having obtained from the U.S. Surface Transportation Board (STB) a final, unappealable decision that approves the Merger or exempts it from regulation and does not impose on the parties conditions that would significantly and adversely affect the anticipated economic benefits of the Merger to the Company.

If the acquisition is completed, the Company will account for the acquisition of WC using the purchase method of accounting in accordance with the requirements of Section 1580, "Business combinations," of the Handbook of the Canadian Institute of Chartered Accountants. Under this method, the Company will prepare its financial statements reflecting the allocation of the purchase price to acquire the WC shares based on the relative fair values of the assets and liabilities of WC. The results of operations of the Company will reflect the effects of the acquisition following the consummation of the Merger.

Investment in 360networks Inc.

In March 2000, the Company exchanged its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc., a company which offers broadband network services for telecommunication companies, information service providers, application service providers and data-centric enterprises. The Company recorded the shares received at their then estimated fair value resulting in a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share).

On April 20, 2000, 360networks Inc. completed an initial public offering (IPO). According to the terms of an agreement with 360networks Inc. and securities regulations, it is not anticipated that the Company will sell its shares in 360networks Inc. within 12 months of the IPO.

Following the IPO, the investment in 360networks Inc. is accounted for using the cost method. As at December 31, 2000, the market value of the Company's investment was $216 million.

Under separate right-of-way sale agreements, the Company receives revenues and fiber-optic strands for its own rail purposes. Once construction of the network is completed, the Company will have an uninterrupted North American fiber-optic-based communications network on its rights-of-way between Vancouver, Halifax and New Orleans.

Share repurchase programs

In 2000, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. During 2000, $529 million was used to repurchase 13 million common shares at an average price of $40.70 per share.

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 10 million common shares of the Company's common stock between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices.

Business risks

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth below as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

Competition

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company (CP) which operates the other major rail system in Canada, serving most of the same industrial and population centers as CN, long distance trucking companies and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of service provided, price and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers located relatively close to one another have encouraged significant competition from trucking companies and rail network over-capacity. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river. As a result, the revenue per revenue ton mile of ICRR has generally been lower than industry averages for these commodities.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry would not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Environment

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railway operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years for environmental matters, its ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

In the operation of a railroad, it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

Because the ultimate cost of known contaminated sites cannot be definitely established, and because additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases, no assurance can be given that the Company will not incur material environmental liabilities in the future.

As at December 31, 2000, the Company had aggregate accruals for environmental costs of $85 million ($96 million at December 31, 1999). The Company has not included any reduction in costs for anticipated recovery from insurance.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 2000 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Labor negotiations

Labor agreements with all Canadian unions expired on December 31, 2000. In January 2001, CN achieved ratified settlements with two of the labor organizations representing 3,500 of CN's approximately 14,300 Canadian unionized employees: the Brotherhood of Maintenance of Way Employees (BMWE) and the Canadian National Railway Police Association. These agreements are for a three-year period effective until December 31, 2003.

The Company has had several negotiating sessions with the remaining unions and negotiations are ongoing. Settlements, pending ratification, have been reached with the Canadian Auto Workers (CAW) (approximately 5,000 employees) and the International Brotherhood of Electrical Workers (approximately 700 employees). The Company is currently in negotiations with the Canadian Council Railway of Operating Unions (CCROU) (approximately 4,900 employees) and the Rail Canada Traffic Controllers (RCTC) (approximately 250 employees). While the Company is currently negotiating to conclude a favorable settlement with the CCROU and the RCTC, there can be no assurance at this time that the outcome of these negotiations will not have a material adverse impact on the Company's business, financial condition and results of operations.

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. For several years now, both Grand Trunk Western (GTW) and IC have bargained on a local basis rather than holding national, industry wide negotiations. Local negotiations result in settlements that better address both the employees' concerns and preferences and the railways' actual operating environment. There are risks associated with negotiating locally. Presidents and Congress have demonstrated that they will step in to avoid national strikes, while a local dispute may not generate federal intervention, making an extended work stoppage more likely. CN's management believes the potential mutual benefits of local bargaining outweigh the risks.

At the end of 2000, the Company had in place current agreements with bargaining units representing approximately 90% of the unionized work force at IC. On January 1, 2001, collective bargaining agreements, covering approximately 40% of unionized employees, opened for negotiation with the United Transportation Union (UTU) (approximately 800 employees) and the Brotherhood of Locomotive Engineers (BLE) (approximately 450 employees). Negotiations are ongoing.

At the end of 2000, the Company also had in place current agreements with bargaining units representing approximately 75% of the unionized workforce at GTW and Duluth Winnipeg and Pacific (DWP). Contracts for approximately 180 GTW employees and approximately 80 DWP employees (about 15% in total) opened at the beginning of 2001. The Company is in mediation with the Brotherhood of Railway Carmen/Transportation Communication International Union (approximately 200 GTW employees). A mediator has been assigned and negotiations are ongoing. The Company has a tentative settlement with the BMWE (approximately 200 employees), subject to ratification.

At CCP Holdings, Inc. (CCP), agreements have been achieved with the UTU (subject to ratification, approximately 100 employees) and the BLE (approximately 60 employees). The balance of the bargaining units (approximately 55%) have ratified agreements in place through to the end of 2002.

Negotiations are ongoing with the bargaining units with which the Company has not yet achieved new settlements. Until new agreements are reached, the terms and conditions of previous agreements continue to apply. The Company does not anticipate work action related to these negotiations while they are ongoing.

Regulation

The Company's Canadian rail operations are subject to the Canada Transportation Act, the Railway Safety Act, the Transportation of Dangerous Materials Act and associated regulations and statutes administered by the CTA and the federal Minister of Transportation. The Company's U.S. rail operations are subject to regulation by the STB and the Federal Railway Administration (FRA). In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

Following completion of its review of the efficiency of the grain transportation and handling system and the sharing of efficiency gains between shippers and railway companies, the Canadian government adopted reform legislation in 2000 which imposed *inter alia* an 18% reduction on revenues which railways can earn in the movement of export grain in western Canada.

The Canada Transportation Act must be reviewed by July 1, 2001 and the government has appointed a review panel to look at all aspects of the Act. An area to be considered will be the question of "competitive access" to the CN and CP networks for other rail carriers. CN has put a team together to present its position to the review panel. No assurance can be given that recent amendments to the Canada Transportation Act or any other decision by the Canadian government following its review will not materially adversely affect the Company's financial position or results of operations.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. However, the credit rating of counterparties is regularly monitored.

The forward exchange contract (currency swap) with respect to the 15-year Swiss franc bonds that the Company had previously entered into matured in August 2000. This forward exchange contract acted as a hedge to effectively fix the amount of Canadian dollars required over the term of the debt to make all necessary payments in the foreign currency of issue. The Company did not incur any significant net gains or losses with respect to this transaction.

In 2000, the Company entered into interest rate swap transactions for a total notional amount of $150 million and U.S.$50 million (Cdn$75 million) resulting in effectively converting some fixed interest rate debt into floating interest rate debt. These transactions bring the Company's floating rate debt to approximately 13% of the total consolidated debt. As at December 31, 2000, there was no material change in the value of the swaps.

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. Various swaps and collar agreements are in place to mitigate the risk of fuel price volatility. To further reduce the earnings volatility resulting from variations in the price of fuel, the Company has adopted a systematic approach to its hedging activities which calls for regularly entering into positions to cover a target percentage of future fuel consumption up to two years in advance.

The realized gains at December 31, 2000 and 1999 were $49 million and $5 million, respectively. Hedging positions and credit ratings of counterparties are monitored and losses due to counterparty non-performance are not anticipated. At December 31, 2000, the Company hedged approximately 33% of the estimated 2001 fuel consumption and 23% of the estimated 2002 fuel consumption. This represented approximately 200 million U.S. gallons at an average price of U.S.$0.6343 per U.S. gallon. Unrealized gains or losses from the Company's fuel hedging activities were $17 million loss and $9 million gain as at December 31, 2000 and 1999, respectively.

Other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. Many of the goods and commodities carried by the Company experience cyclicality in demand. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicality because of the significant fixed costs inherent in railroad operations. The Company's revenues are affected by prevailing economic conditions. Should an economic slowdown or recession occur in North America or other key markets, or should major industrial restructuring take place, the volume of rail shipments carried by the Company is likely to be affected. For example, CN does not expect a recovery in Canadian metallurgical coal traffic going forward. Reductions in coal prices coupled with reduced volumes as the demand for Asian imports continues to fall, along with several mine closures, all significantly impact the growth prospects for the Canadian coal business. However, Canadian metallurgical coal only represented between 1%–2% of the Company's 2000 freight revenues.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in the first quarter of 1998, a severe ice storm hit eastern Canada which disrupted operations and service for the railroad as well as for CN customers.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Management Report

The accompanying consolidated financial statements of Canadian National Railway Company and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. These statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this report principally through its Audit and Finance Committee, consisting solely of outside directors. The Audit and Finance Committee reviews the Company's consolidated financial statements and annual report and recommends their approval by the Board of Directors. Also, the Audit and Finance Committee meets regularly with the Chief, Internal Audit, and with the shareholders' auditors.

These consolidated financial statements have been audited by KPMG LLP, who have been appointed as the sole auditors of the Company by the shareholders.

Claude Mongeau
Executive Vice-President and Chief Financial Officer

January 29, 2001

Serge Pharand

Serge Pharand
Vice-President and Corporate Comptroller

January 29, 2001

Auditors' Report

To the shareholders of Canadian National Railway Company

We have audited the consolidated balance sheets of Canadian National Railway Company as at December 31, 2000 and 1999 and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in accordance with Canadian generally accepted accounting principles.

On January 23, 2001, we reported separately to the Board of Directors of the Company on consolidated financial statements for the same period, prepared in accordance with United States generally accepted accounting principles. Significant differences between the accounting principles applied in the accompanying financial statements and those under United States generally accepted accounting principles are quantified and explained in Note 23 to the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 23, 2001 (January 29, 2001 as to Note 3)

Consolidated Statement of Income

In millions, except per share data — *Year ended December 31,*	2000	1999	1998
Revenues			
Petroleum and chemicals	$ 894	$ 878	$ 578
Metals and minerals	392	398	319
Forest products	1,008	995	817
Coal	328	402	342
Grain and fertilizers	1,136	1,066	798
Intermodal	919	810	712
Automotive	559	483	377
Other items	210	229	158
Total revenues	5,446	5,261	4,101
Operating expenses			
Labor and fringe benefits	1,684	1,711	1,457
Purchased services	595	591	466
Depreciation and amortization	412	400	210
Fuel	450	309	269
Equipment rents	291	335	300
Material	263	260	224
Operating taxes	158	173	172
Casualty and other	208	249	166
Special charge *(Note 15)*	–	–	590
Total operating expenses	4,061	4,028	3,854
Operating income	1,385	1,233	247
Interest expense *(Note 16)*	(295)	(308)	(244)
Other income *(Note 17)*	124	46	112
Income before income taxes	1,214	971	115
Income tax expense *(Note 18)*	(442)	(369)	(6)
Net income	$ 772	$ 602	$ 109
Basic earnings per share (Note 20)			
Net income	$ 3.90	$ 3.02	$ 0.60
Diluted earnings per share (Note 20)			
Net income	$ 3.81	$ 2.97	$ 0.59

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

In millions *December 31,*	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 19	$ 307
Accounts receivable *(Note 5)*	737	803
Material and supplies	110	116
Deferred income taxes *(Note 18)*	116	148
Other	143	153
	1,125	1,527
Properties *(Note 6)*	13,583	12,863
Other assets and deferred charges *(Note 7)*	488	367
Total assets	$15,196	$14,757
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued charges *(Note 9)*	$ 1,393	$ 1,390
Current portion of long-term debt *(Note 11)*	434	272
Other	76	115
	1,903	1,777
Deferred income taxes *(Note 18)*	2,516	2,253
Other liabilties and deferred credits *(Note 10)*	1,193	1,260
Long-term debt *(Note 11)*	3,886	3,961
Shareholders' equity:		
Common shares *(Note 12)*	3,124	3,311
Convertible preferred securities *(Note 12)*	327	327
Contributed surplus	178	190
Currency translation	61	(9)
Retained earnings	2,008	1,687
	5,698	5,506
Total liabilities and shareholders' equity	$15,196	$14,757

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

In millions	Issued and outstanding common shares	Issued and outstanding convertible preferred securities	Common shares	Convertible preferred securities	Contributed surplus	Currency translation	Retained earnings	Total shareholders' equity
Balances December 31, 1997	171.2	–	$ 2,016	$ –	$ 190	$ –	$ 1,211	$ 3,417
Net income	–	–	–	–	–	–	109	109
Shares issued in second-step acquisition of Illinois Central Corporation	20.2	–	824	–	–	–	–	824
Stock options issued in second-step acquisition of Illinois Central Corporation	–	–	25	–	–	–	–	25
Stock options exercised *(Note 13)*	0.4	–	8	–	–	–	–	8
Currency translation	–	–	–	–	–	7	–	7
Dividends ($0.53 per share)	–	–	–	–	–	–	(99)	(99)
Balances December 31, 1998	191.8	–	2,873	–	190	7	1,221	4,291
Cumulative effect of change in accounting policy *(Note 2)*	–	–	–	–	–	–	(9)	(9)
Net income	–	–	–	–	–	–	602	602
Shares issued *(Note 12)*	9.2	4.6	404	327	–	–	–	731
Stock options exercised *(Note 13)*	1.4	–	34	–	–	–	–	34
Currency translation	–	–	–	–	–	(16)	–	(16)
Dividends ($0.60 per share)	–	–	–	–	–	–	(118)	(118)
Dividends on convertible preferred securities	–	–	–	–	–	–	(9)	(9)
Balances December 31, 1999	202.4	4.6	3,311	327	190	(9)	1,687	5,506
Net income	–	–	–	–	–	–	772	772
Stock options exercised *(Note 13)*	1.2	–	26	–	–	–	–	26
Share repurchase program *(Note 12)*	(13.0)	–	(213)	–	(12)	–	(304)	(529)
Currency translation	–	–	–	–	–	70	–	70
Dividends ($0.70 per share)	–	–	–	–	–	–	(136)	(136)
Dividends on convertible preferred securities	–	–	–	–	–	–	(11)	(11)
Balances December 31, 2000	**190.6**	**4.6**	**$3,124**	**$327**	**$178**	**$ 61**	**$2,008**	**$5,698**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions *Year ended December 31,*	2000	1999	1998
Operating activities			
Net income	$ 772	$ 602	$ 109
Non-cash items in income:			
Special charge *(Note 15)*	–	–	590
Depreciation and amortization *(Note 19 (B))*	421	407	213
Deferred income taxes *(Note 18)*	218	324	(13)
Gain on exchange of investments *(Note 7)*	(84)	–	–
Equity in earnings of Illinois Central Corporation *(Note 4 (A))*	–	–	(86)
Other	–	(2)	–
Changes in:			
Accounts receivable *(Note 5)*	71	(156)	270
Material and supplies	7	38	18
Accounts payable and accrued charges *(Note 9)*	21	64	109
Other net current assets and liabilities	(39)	(27)	(10)
Payments for workforce reduction *(Note 10 (A))*	(189)	(219)	(187)
Other	(70)	(69)	(60)
Cash provided from operating activities	1,128	962	953
Investing activities			
Net additions to properties *(Note 19 (B))*	(607)	(629)	(494)
Net proceeds from disposal of properties	31	70	90
Investment in Illinois Central Corporation *(Note 4 (A))*	–	–	(2,608)
Other	(10)	2	–
Cash used by investing activities	(586)	(557)	(3,012)
Dividends paid to shareholders	(149)	(127)	(99)
Financing activities			
Issuance of long-term debt	860	456	4,589
Issuance of convertible preferred securities *(Note 12)*	–	327	–
Reduction of long-term debt	(1,038)	(1,509)	(2,541)
Issuance of common shares *(Note 12)*	26	438	8
Repurchase of common shares *(Note 12)*	(529)	–	–
Cash provided from (used by) financing activities	(681)	(288)	2,056
Net decrease in cash	(288)	(10)	(102)
Cash and cash equivalents, beginning of year*	307	317	365
Cash and cash equivalents, end of year	$ 19	$ 307	$ 263

* *The cash and cash equivalents balance at the beginning of 1999 includes the cash and cash equivalents of Illinois Central Corporation which has been consolidated beginning in 1999.*

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

CN, directly and through its subsidiaries, is engaged primarily in the rail transportation business. CN spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the Canadian ports of Vancouver, Prince Rupert, Montreal and Halifax, and Gulf of Mexico ports in New Orleans, Louisiana and Mobile, Alabama, and the key cities of Vancouver, Edmonton, Calgary, Winnipeg, Montreal, Toronto, Buffalo, Chicago, Detroit, Memphis, St. Louis and Jackson, Mississippi, with connections to all points in North America. CN's revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

A. Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries, including Illinois Central Corporation (IC) for which the Company acquired control effective July 1, 1999 and has consolidated IC's financial statements retroactive to January 1, 1999. During 1998, the Company accounted for its investment in IC using the equity method of accounting pending approval of the acquisition of control of IC from the U.S. Surface Transportation Board (STB). The Company's investments, in which the Company has joint control, are accounted for using the proportionate consolidation method.

B. Revenues

Freight revenues are recognized on services performed by the Company, based on the percentage of completed service method. Costs associated with movements are recognized as the service is performed.

C. Foreign exchange

The unrealized foreign exchange gain or loss from translation of all U.S. operations is recorded in Currency translation, which forms part of Shareholders' equity.

Subsequent to the integration of the Company's U.S. operations, effective October 1, 2000 all of the Company's U.S. operations are classified as self-sustaining foreign entities with the U.S. dollar as their functional currency. Accordingly, the U.S. operations' assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. The initial translation adjustment of $76 million (pre-tax), resulting from the change of the functional currency of the U.S. operations not previously considered self-sustaining, was recorded in Currency translation.

The Company has designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in its U.S. subsidiaries. Unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are also included in Currency translation.

D. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

E. Accounts receivable

Accounts receivable are recorded at cost net of the provision for doubtful accounts. Any gains or losses on the sale of accounts receivable are calculated by comparing the carrying amount of the accounts receivable sold to the total of the cash proceeds on sale and the fair value of the retained interest in such receivables on the date of transfer. Fair values are determined on a discounted cash flow basis. Costs related to the sale of accounts receivable are recognized in earnings in the period incurred.

F. Material and supplies

The inventory is valued at weighted-average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable secondhand, obsolete and scrap materials.

G. Properties

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. All costs of materials associated with the installation of rail, ties, ballast and other track improvements are capitalized to the extent they meet the Company's definition of "unit of property." The related labor and overhead costs are also capitalized for the installation of new, non-replacement track. All other labor and overhead costs and maintenance costs are expensed as incurred. Related interest costs are charged to expense. Included in property additions are the cost of developing computer software for internal use.

The cost of railroad properties, less salvage value, retired or disposed of in the normal course of business is charged to accumulated depreciation, in accordance with the group method of depreciation. The Company reviews the carrying amounts of properties whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

1 Summary of significant accounting policies *(continued)*

H. Depreciation

The cost of properties, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Rolling stock	3%
Buildings	3%
Other	2%

The Company performs periodic reviews of its depreciation rates. Adjustments to rates resulting from such reviews have not had a material impact on operating results.

I. Pensions

Pension costs are determined using actuarial methods. Pension expense is charged to operations and includes:

(i) the cost of pension benefits provided in exchange for employees' services rendered during the year,

(ii) the amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans,

(iii) the amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and

(iv) the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

J. Post-retirement benefits other than pensions

The Company accrues the cost of post-retirement benefits other than pensions. These benefits, which are funded by the Company as they become due, include life insurance programs, medical benefits, supplemental pension allowances and free rail travel benefits.

The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the projected benefit obligation over the expected average remaining service life of the employee group covered by the plans.

K. Financial instruments

Derivative financial instruments may be used from time to time by the Company in the management of its fuel, interest rate and foreign currency exposures. Gains or losses on such instruments entered into for the purposes of hedging financial risk exposures are deferred and amortized in the results of operations over the life of the hedged asset or liability or over the terms of the derivative financial instrument. Income and expense related to financial instruments are recorded in the same category as that generated by the underlying asset or liability.

L. Environmental expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

M. Income taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in income. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

2 Accounting changes

The Company has made certain changes in accounting policies to conform to new accounting standards.

2000

In 2000, the Company early adopted the Canadian Institute of Chartered Accountants' (CICA) recommendations related to the presentation of earnings per share. The standard essentially harmonizes Canadian and U.S. standards, specifically in the areas of presenting earnings per share information, computing diluted earnings per share and disclosure requirements. The new standard requires restatement of prior year comparative information.

1999

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits. Specifically, the standard outlines guidance for the accounting for pension, post-retirement and workers' compensation costs. In accordance with the transitional provisions of the new standard, the Company has applied the recommendations retroactively but has not restated comparative periods. The cumulative effect of the adoption of the new standard of $17 million ($9 million after tax) has been reflected as an adjustment to opening retained earnings.

1998

In 1998, the Company adopted the CICA recommendations related to the presentation of cash flow statements. The standard requires that, among other things, non-cash items be excluded from investing and financing activities and disclosed elsewhere in the consolidated financial statements in a way that provides all relevant information about these investing and financing activities. The standard requires retroactive application with prior comparative information being restated.

In 1998, the Company adopted specific U.S. guidance related to the accounting for computer software costs as found in Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with the requirements of this statement, this change has been applied prospectively. The impact of the adoption of SOP 98-1 was to increase net income by approximately $13 million for the year ended December 31, 1998. The Company has not applied this accounting change retroactively as the impact on prior years' comparative figures is not significant.

3 Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and Wisconsin Central Transportation Corporation (WC) entered into a merger agreement (the Merger), providing for the acquisition of WC by the Company for a purchase price of approximately $1,200 million (U.S.$800 million or U.S.$17.15 per share) payable in cash. The acquisition will be initially financed by debt and cash on hand.

The Merger is subject to, among other things, approval by the shareholders of WC. WC shareholders are expected to vote on the proposed Merger during the first half of 2001.

In accordance with the terms of the Merger, the Company's obligation to consummate the Merger is subject to the Company having obtained from the STB a final, unappealable decision that approves the Merger or exempts it from regulation and does not impose on the parties conditions that would significantly and adversely affect the anticipated economic benefits of the Merger to the Company.

If the acquisition is completed, the Company will account for the acquisition of WC using the purchase method of accounting in accordance with the requirements of Section 1580, "Business combinations," of the Handbook of the CICA. Under this method, the Company will prepare its financial statements reflecting the allocation of the purchase price to acquire the WC shares based on the relative fair values of the assets and liabilities of WC. The results of operations of the Company will reflect the effects of the acquisition following the consummation of the Merger.

4 Business combinations

A. Acquisition and consolidation of Illinois Central Corporation

In 1998, the Company, through an indirect wholly owned subsidiary, acquired IC in a two-step transaction for a purchase price of approximately U.S.$2.4 billion payable as to 75% in cash and 25% in common shares of the Company. On March 14, 1998, the Company acquired 75% of the outstanding common shares of IC for $2,549 million (U.S.$1,796 million) or U.S.$39 per share. On June 4, 1998, the Company acquired the remaining 25% of the outstanding common shares of IC for 20.2 million shares of the Company's common stock. In addition, the outstanding IC stock options were exchanged for stock options of the Company.

Pending STB approval, the Company accounted for its investment in IC under the equity method of accounting. Effective July 1, 1999, the Company assumed control of IC and consolidated the results of IC since January 1, 1999.

B. Proposed combination of Canadian National and Burlington Northern Santa Fe

On December 18, 1999, CN and Burlington Northern Santa Fe Corporation (BNSF) entered into a Combination Agreement (the Combination) providing for the combination of the two companies. The Combination was subject to, among other things, approval by the shareholders of CN and BNSF, as well as approvals by the Quebec Superior Court and the STB. On March 17, 2000, the STB issued a decision directing large railroads not to pursue further merger activities until the STB has adopted new rules governing merger proceedings. On July 14, 2000, the United States Court of Appeals for the District of Columbia Circuit rendered its decision denying CN's petition for review and upholding the STB's moratorium. On July 20, 2000, CN and BNSF announced that their Boards of Directors had both voted to approve an immediate, mutual termination of the Combination.

5 Accounts receivable

In millions	*December 31,* 2000	1999
Freight		
Trade	$470	$441
Accrued	81	161
Non-freight	249	247
	800	849
Provision for doubtful accounts	(63)	(46)
	$737	$803

In 1998, the Company entered into a five-year revolving agreement to sell eligible freight trade receivables up to a maximum of $250 million of receivables outstanding at any point in time. At December 31, 2000, pursuant to the agreement, $147 million and U.S.$40 million (Cdn$61 million) had been sold on a limited recourse basis compared to $147 million and U.S.$40 million (Cdn$58 million) at December 31, 1999. The Company has retained the responsibility for servicing, administering and collecting freight trade receivables sold. Included in Other income is $10 million in 2000 and $9 million in 1999 for costs related to the agreement, which fluctuate with changes in prevailing interest rates.

No servicing asset or liability has been recorded since the fees the Company receives for servicing the receivables approximate the related costs.

6 Properties

In millions	*December 31, 2000*			*December 31, 1999*		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway	$13,446	$3,189	$10,257	$12,824	$2,993	$ 9,831
Rolling stock	3,398	1,205	2,193	3,247	1,132	2,115
Buildings	1,364	619	745	1,109	543	566
Other	875	487	388	839	488	351
	$19,083	$5,500	$13,583	$18,019	$5,156	$12,863
Capital leases included in properties	$ 1,152	$ 163	$ 989	$ 1,003	$ 115	$ 888

7 Other assets and deferred charges

In millions	*December 31,* 2000	1999
Prepaid benefit cost *(Note 14)*	$166	$113
Investment in 360networks Inc.	87	–
Unrealized exchange loss on long-term debt	77	79
Deferred receivables	73	87
Unamortized debt issue costs	37	43
Other investments	37	22
Other	11	23
	$488	$367

In March 2000, the Company exchanged its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc., a company which offers broadband network services for telecommunication companies, information service providers, application service providers and data-centric enterprises. The Company recorded the shares received at their then estimated fair value resulting in a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share).

On April 20, 2000, 360networks Inc. completed an initial public offering (IPO). According to the terms of an agreement with 360networks Inc. and securities regulations, it is not anticipated that the Company will sell its shares in 360networks Inc. within 12 months of the IPO.

Following the IPO, the investment in 360networks Inc. is accounted for using the cost method. As at December 31, 2000, the market value of the Company's investment was $216 million.

Under separate right-of-way agreements with 360networks Inc., the Company receives revenues and fiber-optic strands for its own rail purposes.

8 Credit facilities

The Company has U.S.$1,000 million five-year revolving credit facilities which expire in 2003. The credit facilities provide for interest on borrowings at various interest rates including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate plus applicable margins. The credit facility agreements contain customary financial covenants, based on U.S. generally accepted accounting principles, including i) limitations on debt as a percentage of total capitalization, ii) maintenance of tangible net worth above predefined levels, and iii) maintenance of the fixed charge coverage ratio above predefined levels. The Company was in compliance with all of these financial covenants throughout the year. The Company's commercial paper program is backed up by CN's revolving credit facility. In June 1999, the Company used proceeds from the sale of common shares and convertible preferred securities to repay U.S.$125 million (Cdn$185 million) of commercial paper and U.S.$310 million (Cdn$456 million) of the Company's revolving credit facilities. In July 1999, the balance of the revolving credit facilities were repaid. During 2000, the Company did not draw on the credit facilities. As at December 31, 2000, the Company had $77 million of commercial paper outstanding (U.S.$6 million (Cdn$9 million) as at December 31, 1999).

9 Accounts payable and accrued charges

In millions *December 31,*	2000	1999
Trade payables	$ 407	$ 503
Accrued taxes	244	88
Payroll-related accruals	194	185
Accrued charges	187	195
Current portion of workforce reduction provisions	137	182
Accrued interest on long-term debt	126	119
Accrued operating leases	31	29
Other	67	89
	$1,393	$1,390

10 Other liabilities and deferred credits

In millions *December 31,*	2000	1999
Workforce reduction provisions, net of current portion *(A)*	$ 376	$ 517
Personal injury and other claims	373	309
Accrual for post-retirement benefits other than pensions *(B)*	231	220
Environmental reserve, net of current portion	64	66
Deferred credits and other	149	148
	$1,193	$1,260

A. Workforce reduction provisions

The workforce reduction provisions, which cover employees in both Canada and the United States, are mainly comprised of severance payments, the majority of which will be disbursed within the next five years. Other elements of the provisions mainly include early retirement incentives and bridging to early retirement. Payments for severance and other elements of the provisions have reduced the provisions by $189 million for the year ended December 31, 2000 ($219 million for the year ended December 31, 1999). The aggregate provisions amount to $513 million at December 31, 2000.

B. Post-retirement benefits other than pensions

(i) Change in benefit obligation

In millions *Year ended December 31,*	2000	1999
Benefit obligation at beginning of year, as adjusted *(Note 2)*	$230	$172
Interest cost	15	15
Service cost	8	8
Foreign currency changes	3	(3)
Actuarial (gain) loss	3	(13)
Benefits paid	(17)	(16)
Consolidation of IC	–	67
Benefit obligation at end of year	$242	$230

(ii) Funded status

In millions *December 31,*	2000	1999
Unfunded benefit obligation at end of year	$242	$230
Unrecognized net actuarial loss	(8)	(6)
Unrecognized prior service cost	(3)	(4)
Accrued benefit cost for post-retirement benefits other than pensions	$231	$220

(iii) Components of net periodic benefit cost

In millions *Year ended December 31,*	2000	1999	1998
Interest cost	$15	$15	$10
Service cost	8	8	4
Amortization of prior service cost	1	1	1
Recognized net actuarial loss	1	2	6
Net periodic benefit cost	$25	$26	$21

(iv) Weighted-average assumptions

December 31,	2000	1999	1998
Discount rate	6.95%	7.39%	7.50%
Rate of compensation increase	4.25%	4.25%	4.25%

A one-percentage-point change in the health care trend rate would not cause a material change in the Company's net periodic benefit cost nor the post-retirement benefit obligation.

11 Long-term debt

In millions	Maturity	Currency in which payable	December 31, 2000	1999
Bonds, debentures and notes: (A)				
Canadian National series:				
5⅝% 15-year Swiss franc bonds *(B)*	Aug. 22, 2000	CHF	$ –	$ 99
8¼% 15-year notes	May 21, 2001	Cdn$	**150**	150
6⅝% 10-year notes	May 15, 2003	U.S.$	**225**	218
7% 10-year notes	Mar. 15, 2004	U.S.$	**398**	386
6.45% Puttable Reset Securities (PURS) *(C)*	July 15, 2006	U.S.$	**375**	363
6.80% 20-year notes *(D)*	July 15, 2018	U.S.$	**300**	291
7⅜% 30-year debentures	May 15, 2023	U.S.$	**225**	218
6.90% 30-year notes *(D)*	July 15, 2028	U.S.$	**712**	690
Illinois Central series:				
6.83% 5-year notes	May 17, 2000	U.S.$	–	44
7.12% 5-year notes	Aug. 2, 2001	U.S.$	**75**	73
6.72% 5-year notes	Aug. 14, 2001	U.S.$	**75**	73
4% 2-year notes	Mar. 1, 2002	U.S.$	**1**	1
6⅝% 10-year notes	May 15, 2003	U.S.$	**150**	145
Non-interest bearing 7-year notes	Nov. 29, 2003	U.S.$	**1**	1
7¾% 10-year notes	May 1, 2005	U.S.$	**150**	145
6.98% 12-year notes	July 12, 2007	U.S.$	**75**	73
6.63% 10-year notes	June 9, 2008	U.S.$	**30**	29
5% 99-year income debentures	July 1, 2032	U.S.$	**1**	1
5% 99-year income debentures	Dec. 1, 2056	U.S.$	**12**	12
7.7% 100-year debentures	Sep. 15, 2096	U.S.$	**187**	182
Total bonds, debentures and notes			**3,142**	3,194
Other:				
Commercial paper *(E) (Note 8)*		Various	**77**	9
Capital lease obligations, amounts owing under equipment agreements and other *(F)*		Various	**1,114**	1,043
Total other			**1,191**	1,052
Subtotal			**4,333**	4,246
Less:				
Current portion of long-term debt			**434**	272
Net unamortized discount			**13**	13
			447	285
			$3,886	$3,961

A. The Company's bonds, debentures and notes are unsecured.

B. The bonds issued in Swiss francs (CHF170 million), bearing an interest rate of 5⅝%, were effectively converted at their issue date to a $99 million Canadian dollar obligation through a currency swap agreement at an all-inclusive cost of 11.17%. These bonds were repaid in August 2000.

C. The PURS contain imbedded simultaneous put and call options at par. At the time of issuance, the Company sold the option to call the securities on July 15, 2006 (the reset date). If the call option is exercised, the imbedded put option is automatically triggered, resulting in the redemption of the original PURS. The call option holder will then have the right to remarket the securities at a new coupon rate for an additional 30-year term ending July 15, 2036. The new coupon rate will be determined according to a pre-set mechanism based on market conditions then prevailing. If the call option is not exercised, the put option is deemed to have been exercised, resulting in the redemption of the PURS on July 15, 2006.

D. The 20-year and 30-year notes are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

E. During 1998, the Company initiated a commercial paper program. The program enables the Company to issue commercial paper up to a maximum aggregate principal amount of $600 million or the U.S. dollar equivalent and is supported by CN's revolving credit facility. Commercial paper debt is due within one year but has been classified as long-term debt, reflecting the Company's intent and ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the revolving credit facilities. Interest rates on commercial paper range from approximately 5¾% to 6%.

F. Interest rates for the capital leases range from approximately 5½% to 14½% with maturity dates in the years 2001 through 2025. The imputed interest on these leases amounted to $559 million as at December 31, 2000, and $577 million as at December 31, 1999.

The equipment agreements are payable by monthly or semi-annual installments over various periods to 2007 at interest rates ranging from 6% to 9.7%. The principal amounts are payable as follows: $26 million and U.S.$1 million (Cdn$2 million) as at December 31, 2000, and $39 million and U.S.$12 million (Cdn$17 million) as at December 31, 1999. The capital leases, equipment agreements, and other obligations are secured by properties with a net carrying amount of $1,064 million as at December 31, 2000 and $946 million as at December 31, 1999.

G. Principal repayments for the following fiscal years, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2000 but excluding repayments of commercial paper of $77 million, are as follows:

Year	*In millions* Amount
2001	$ 434
2002	128
2003	497
2004	508
2005	216
2006 and thereafter	2,460

H. The aggregate amount of debt payable in U.S. currency as at December 31, 2000 is U.S.$2,290 million (Cdn$3,434 million) and as at December 31, 1999 is U.S.$2,332 million (Cdn$3,389 million).

I. During 2000, the Company recorded $149 million in assets and the corresponding debt on leases for new equipment ($337 million in 1999).

12 Capital stock and convertible preferred securities

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value issuable in series
- Unlimited number of Class B Preferred Shares, without par value issuable in series

B. Issued and outstanding common shares

During 2000, the Company issued 1.2 million shares related to stock options exercised. The total number of common shares issued and outstanding was 190.6 million as at December 31, 2000.

During 1999, the Company issued 9.2 million common shares as a result of the June 23, 1999 public offering. The Company also issued 1.4 million shares related to stock options exercised.

C. Convertible preferred securities

In 1999, the Company issued 4.6 million convertible preferred securities at U.S.$50 per security. These securities are subordinated securities convertible into common shares of CN at the option of the holder at an original conversion price of U.S.$38.48 per common share, representing an original conversion rate of 1.2995 common shares for each convertible preferred security. On or after July 1, 2002, at the option of CN but subject to certain conditions, the holders' rights to convert these securities may be extinguished if the current market price exceeds 120% of the conversion price for a certain period. These securities bear interest, payable quarterly in U.S. dollars, at a rate of 5.25% per year, and are due on June 30, 2029 (Note 23 (a) (iii)).

D. Stock split

On July 20, 1999, the Board of Directors of the Company approved a two-for-one common stock split which was effected in the form of a stock dividend of one additional common share of CN common stock payable for each share outstanding or held in treasury on September 27, 1999 to shareholders of record on September 23, 1999. All equity based benefit plans reflect the issuance of additional shares or options due to the declaration of the stock split. All shares and per share data reflect the effect of the stock split.

E. Share repurchase programs

In 2000, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. During 2000, $529 million was used to repurchase 13 million common shares at an average price of $40.70 per share.

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 10 million common shares of the Company's common stock between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices.

13 Stock plans

A. Employee share plan

In 1997, an Employee Share Investment Plan (ESIP) was implemented giving eligible employees the opportunity to subscribe for up to 6% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employee's behalf, a further 35% of the amount invested by the employee. Participation at December 31, 2000 was 7,916 employees (7,359 at December 31, 1999). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 637,531 in 2000 and 375,681 in 1999, resulting in a pre-tax charge to income of $6 million, $5 million and $3 million for the years ended December 31, 2000, 1999 and 1998, respectively.

B. Stock options

The Company has stock option plans for eligible managers to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options are exercisable during a period not to exceed 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At December 31, 2000, an additional 7.7 million common shares remained authorized for future issuances under these plans.

Options issued by the Company include conventional options, which vest over a period of time, and performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment. The total conventional and performance options outstanding at December 31, 2000 were 5.6 million and 3.3 million, respectively.

Changes in the Company's stock options are as follows:

	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 1997	3.6	$ 19.43
Conversion of IC options	3.0	U.S.$ 22.57
Granted	1.3	$ 37.35
Canceled	(0.4)	$ 20.22
Exercised	(0.4)	$ 19.42
Outstanding at December 31, 1998 (1)	7.1	$ 29.11
Granted	3.0	$ 45.46
Canceled	(0.4)	$ 34.51
Exercised	(1.4)	$ 25.43
Outstanding at December 31, 1999 (1)	8.3	$ 34.88
Granted	2.2	$ 35.33
Canceled	(0.4)	$ 36.23
Exercised	(1.2)	$ 22.19
Outstanding at December 31, 2000 (1)	**8.9**	**$34.95**

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

Stock options outstanding and exercisable as at December 31, 2000 were as follows:

	Options outstanding				Options exercisable	
	Range of exercise prices	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Number of options	Weighted-average exercise price
		In millions			*In millions*	
Options granted in 1995	$13.50	0.4	3	$ 13.50	0.4	$ 13.50
Options granted in 1996	$18.52–$23.72	0.3	3	$ 18.69	0.3	$ 18.69
Options granted in 1997	$24.85–$38.75	0.6	4	$ 28.43	0.4	$ 28.45
Options granted in 1998 (1)	$16.79–$46.25	2.8	6	$ 30.63	2.5	$ 30.74
Options granted in 1999	$36.14–$49.45	2.7	8	$ 45.47	0.6	$ 45.21
Options granted in 2000	$34.91–$48.50	2.1	9	$ 35.34	0.1	$ 35.01
Balance at December 31, 2000 (1)		**8.9**	7	**$34.95**	4.3	$30.31

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

14 Pensions

The Company has retirement benefit plans under which substantially all employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The tables that follow pertain to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan (the Pension Plan). The Company's other pension plans are not significant.

Description of plan

The Pension Plan is a contributory defined benefit pension plan that covers substantially all CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain (loss) sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Pension Plan and the related legislation.

Funding policy

Employee contributions to the Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

Description of fund assets

The assets of the Pension Plan are accounted for separately in the CN Pension Trust Funds. These assets consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and oil and gas assets.

(a) Change in benefit obligation

In millions *Year ended December 31,*	2000	1999
Benefit obligation at beginning of year, as adjusted *(Note 2)*	$ 9,935	$10,540
Actuarial (gain) loss	730	(746)
Interest cost	690	632
Plan participants' contributions	74	73
Service cost	70	95
Foreign currency changes	3	(3)
Benefit payments and transfers	(647)	(656)
Benefit obligation at end of year	$10,855	$ 9,935

(b) Change in plan assets

In millions *Year ended December 31,*	2000	1999
Fair value of plan assets at beginning of year	$11,768	$10,728
Actual return on plan assets	1,198	1,567
Plan participants' contributions	74	73
Employer contributions	59	59
Foreign currency changes	3	(3)
Benefit payments and transfers	(647)	(656)
Fair value of plan assets at end of year	$12,455	$11,768

(c) Funded status

In millions *December 31,*	2000	1999
Excess of fair value of plan assets over benefit obligation at end of year [1]	$1,600	$1,833
Unrecognized net actuarial gain [1]	(1,652)	(1,976)
Unrecognized net transition obligation	59	78
Unrecognized prior service cost	153	172
Net amount recognized	$ 160	$ 107

(1) Subject to future reduction for gain sharing under the terms of the plan.

(d) Amount recognized in the Consolidated Balance Sheet

In millions *December 31,*	2000	1999
Prepaid benefit cost	$ 166	$ 113
Accrued benefit cost	(6)	(6)
Net amount recognized	$ 160	$ 107

(e) Components of net periodic benefit cost

In millions *Year ended December 31,*	2000	1999	1998
Interest cost	$ 690	$ 632	$ 642
Service cost	70	95	60
Amortization of net transition obligation	19	19	108
Amortization of prior service cost	19	20	42
Expected return on plan assets	(792)	(732)	(700)
Recognized net actuarial (gain) loss	–	23	(95)
Net periodic benefit cost	$ 6	$ 57	$ 57

(f) Weighted-average assumptions

December 31,	2000	1999	1998
Discount rate	6.50%	7.00%	7.50%
Rate of compensation increase	4.25%	4.25%	4.25%
Expected return on plan assets for year ending December 31	9.00%	9.00%	9.00%

15 Special charge

The Company recorded a charge to operations of $590 million in 1998 for workforce reduction plans aimed at reducing future operating costs and increasing productivity. The charge includes severance and other payments to be made for approximately 3,000 reductions (1,400 occurred in 1998; 1,300 occurred in 1999; and the remainder occurred in 2000).

15 Special charge *(continued)*

Labor productivity and operating efficiency initiatives span the entire organization with reductions in the administration, transportation, engineering and equipment functions. The majority of the remaining payments related to workforce reductions are expected to be disbursed within the next five years.

16 Interest expense

In millions *Year ended December 31,*	2000	1999	1998
Interest on long-term debt	**$306**	$313	$259
Interest on short-term borrowings	**–**	–	2
Interest income	**(11)**	(5)	(17)
	$295	$308	$244
Cash interest payments	**$299**	$305	$194

17 Other income

In millions *Year ended December 31,*	2000	1999	1998
Gain on exchange of investment *(Note 7)*	**$ 84**	$ –	$ –
Gain on disposal of properties	**57**	56	51
Foreign exchange gain (loss)	**8**	4	(9)
Investment income	**–**	12	12
Net rental loss	**(22)**	(25)	(20)
Equity in earnings of IC *(Note 4 (A))*	**–**	–	86
Other	**(3)**	(1)	(8)
	$124	$ 46	$112

18 Income taxes

The Company's income tax expense is as follows:

In millions *Year ended December 31,*	2000	1999	1998
Federal tax rate	**29.1%**	29.1%	29.1%
Income tax expense from income before income taxes based on the Federal tax rate	**$(353)**	$(283)	$(33)
Income tax (expense) recovery resulting from:			
Provincial and other taxes	**(148)**	(160)	(36)
Deferred income tax adjustment due to rate deductions	**(4)**	–	–
U.S. tax rate differential	**7**	30	–
Gain on disposals and dividends	**20**	8	8
Equity in earnings of IC	**–**	–	38
Other	**36**	36	17
Income tax expense	**$(442)**	$(369)	$ (6)
Income tax expense is represented by:			
Current	**$(224)**	$ (45)	$(19)
Deferred	**(218)**	(324)	13
	$(442)	$(369)	$ (6)
Cash payments for income taxes	**$ 101**	$ 45	$ 18

Significant components of deferred income tax assets and liabilities are as follows:

In millions *December 31,*	2000	1999
Deferred income tax assets		
Workforce reduction provisions	**$ 202**	$ 266
Accruals and other reserves	**198**	186
Post-retirement benefits	**91**	89
Losses and tax credit carryforwards	**26**	39
	517	580
Deferred income tax liabilities		
Properties	**2,917**	2,685
Total net deferred income tax liability	**2,400**	2,105
Net current deferred income tax asset	**116**	148
Net long-term deferred income tax liability	**$2,516**	$2,253

19 Segmented information

A. Geographic areas

The Company operates in one business segment with operations and assets in Canada and the United States.

B. Information on geographic areas

In millions *Year ended December 31,*	2000	1999	1998
Revenues:			
Canadian rail	**$ 3,668**	$ 3,549	$ 3,523
U.S. rail	**1,778**	1,712	578
	$ 5,446	$ 5,261	$ 4,101
Operating income:			
Canadian rail	**$ 1,025**	$ 852	$ 222
U.S. rail	**360**	381	25
	$ 1,385	$ 1,233	$ 247
Net income (loss):			
Canadian rail	**$ 587**	$ 464	$ 138
U.S. rail	**185**	138	(115)
Equity in earnings of IC	**–**	–	86
	$ 772	$ 602	$ 109
Depreciation and amortization:			
Canadian rail *(i)*	**$ 232**	$ 212	$ 203
U.S. rail	**189**	195	10
	$ 421	$ 407	$ 213
Capital expenditures: (ii)			
Canadian rail *(iii)*	**$ 541**	$ 717	$ 545
U.S. rail	**215**	249	70
	$ 756	$ 966	$ 615

In millions *December 31,*	2000	1999
Identifiable assets:		
Canadian rail	**$ 6,860**	$ 6,678
U.S. rail	**8,336**	8,079
	$15,196	$14,757

(i) Includes $9 million (1999: $7 million, 1998: $3 million) depreciation and amortization of properties related to other business activities.

(ii) Represents additions to properties.

(iii) Includes $9 million (1999: $11 million, 1998: $17 million) of additions to properties related to other business activities. This amount also includes non-cash capital expenditures financed with capital leases.

20 Earnings per share

The 1999 and 1998 comparative figures have been restated to conform to the new accounting standard (see Note 2). In 1998, the earnings per share figures include the effect of a special charge of $590 million, $345 million after tax ($1.88 per basic share or $1.87 per diluted share).

Year ended December 31,	2000	1999	1998
Basic earnings per share			
Net income	**$3.90**	$3.02	$0.60
Diluted earnings per share			
Net income	**$3.81**	$2.97	$0.59

The following table provides a reconciliation between basic and diluted earnings per share:

In millions *Year ended December 31,*	2000	1999	1998
Net income	**$ 772**	$ 602	$ 109
Dividends on convertible preferred securities	**11**	6	-
	$ 761	$ 596	$ 109
Weighted-average shares outstanding	**195.0**	197.3	183.1
Effect of dilutive securities and stock options	**7.8**	5.2	1.7
Weighted-average diluted shares outstanding	**202.8**	202.5	184.8

21 Major commitments and contingencies

A. Leases

The Company's commitments as at December 31, 2000 under operating and capital leases totaling $871 million and $1,439 million, respectively, with annual net minimum payments in each of the five following fiscal years to 2006 and thereafter, are as follows:

Year *In millions*	Operating	Capital
2001	$185	$ 163
2002	157	117
2003	123	101
2004	107	120
2005	83	92
2006 and thereafter	216	846
	$871	1,439
Less: imputed interest on capital leases at rates ranging from approximately 5½% to 14½%		559
Present value of minimum lease payments at current rate included in debt		$ 880

B. Other commitments

As at December 31, 2000, the Company had commitments to acquire freight cars at an aggregate cost of $13 million, rail at a cost of $28 million and railroad ties at a cost of $25 million. Furthermore, as at December 31, 2000, the Company had entered into car repair commitments totaling $10 million for the years 2001 and 2002 and agreements with fuel suppliers to purchase approximately 46% of its anticipated 2001 volume and 36% of its anticipated 2002 volume at market prices prevailing on the date of the purchase.

C. Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 2000 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

21 Major commitments and contingencies *(continued)*

D. Environmental matters

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;

(iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;

(iv) the ability to recover costs from any third parties with respect to particular sites; and

therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at December 31, 2000, the Company had aggregate accruals for environmental costs of $85 million ($96 million as at December 31, 1999). During 2000, $11 million was applied to the provision for environmental costs compared to $16 million in 1999 and $11 million in 1998. In addition, related environmental capital expenditures were $20 million in 2000, $11 million in 1999 and $13 million in 1998. The Company also expects to incur capital expenditures relating to environmental matters of approximately $30 million in each of 2001, 2002 and 2003. The Company has not included any reduction in costs for anticipated recovery from insurance.

E. Labor negotiations

Approximately 80% of the Company's workforce is comprised of unionized employees. As of February 2001, approximately 70% of these employees either have bargaining agreements that have expired or are covered by a bargaining agreement that will expire in 2001.

22 Financial instruments

A. Risk management

The Company has limited involvement with derivative financial instruments in the management of its fuel, interest rate and foreign currency exposures, and does not use them for trading purposes.

(i) Credit risk

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not expect such non-performance as counterparties are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored. The total risk associated with the Company's counterparties was immaterial at December 31, 2000. The Company believes there are no significant concentrations of credit risk.

(ii) Interest rates

In 2000, the Company entered into interest rate swap transactions for a total notional amount of $150 million and U.S.$50 million (Cdn$75 million) resulting in effectively converting some fixed interest rate debt into floating interest rate debt. As at December 31, 2000, there was no material change in the fair value of the swaps.

(iii) Foreign currency

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. Effective October 1, 2000, the Company's foreign exchange hedge of its net investments in foreign operations has been extended to include all U.S. subsidiaries. As a result, from the dates of designation, unrealized foreign exchange gains and losses on the translation of the Company's U.S. dollar denominated debt are recorded in Currency translation, which forms part of Shareholders' equity.

(iv) Fuel

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. Various swaps and collar agreements are in place to mitigate the risk of fuel price volatility. To further reduce the earnings volatility resulting from variations in the price of fuel, the Company has adopted a systematic approach to its hedging activities which calls for regularly entering into positions to cover a target percentage of future fuel consumption up to two years in advance.

The realized gains at December 31, 2000 and 1999 were $49 million and $5 million, respectively. Hedging positions and credit ratings of counterparties are monitored and losses due to counterparty non-performance are not anticipated. At December 31, 2000, the Company has hedged approximately 33% of the estimated 2001 fuel consumption and 23% of the estimated 2002 fuel consumption. This represented approximately 200 million U.S. gallons at an average price of U.S.$0.6343 per U.S. gallon. Unrecognized gains or losses from the Company's fuel hedging activities were $17 million loss and $9 million gain as at December 31, 2000 and 1999, respectively.

B. Fair value of financial instruments

Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following indicated captions:

(i) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued charges, and Other current liabilities:

The carrying amounts approximate fair value because of the short maturity of these instruments.

(ii) Other assets and deferred charges:

Investments: The Company has various debt and equity investments for which the carrying value approximates the fair value. Exceptions include an investment for which the fair value was estimated based on CN's proportionate share of its accumulated earnings and the Company's investment in 360networks Inc. for which the fair value is estimated based on quoted market price.

(iii) Long-term debt:

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity.

(iv) Convertible preferred securities:

The fair value of the Company's convertible preferred securities is estimated based on the quoted market price.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 2000 and 1999 for which the carrying values are not disclosed on the Consolidated Balance Sheet or for which the carrying amounts are different from the fair values:

In millions	***December 31, 2000***		*December 31, 1999*	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Investments	**$ 124**	**$ 299**	$ 22	$ 42
Financial liabilities				
Long-term debt (including current portion)	**$4,320**	**$4,191**	$4,233	$4,106
Other				
Convertible preferred securities	**$ 327**	**$ 315**	$ 327	$ 281

23 Reconciliation of Canadian and United States generally accepted accounting principles

The consolidated financial statements of Canadian National Railway Company are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), which conform, in all material respects, with those generally accepted in the United States, except as described below:

A. Reconciliation of net income

The application of U.S. GAAP would have the following effects on the net income as reported:

In millions *Year ended December 31,*	**2000**	1999	1998
Net income – Canadian GAAP	**$772**	$602	$109
Adjustments in respect of:			
Property capitalization, net of depreciation	**278**	253	181
Stock-based compensation expense	**(3)**	(7)	(13)
Interest on convertible preferred securities	**(18)**	(9)	–
Equity in earnings of IC	**–**	–	19
Foreign exchange	**2**	–	(15)
Pension and post-retirement benefit costs	**–**	–	11
Income tax expense	**(94)**	(93)	(68)
Income before cumulative effect of changes in accounting policy – U.S. GAAP	**937**	746	224
Cumulative effect of changes in accounting policy	**–**	5	42
Net income – U.S. GAAP	**$937**	$751	$266

23 Reconciliation of Canadian and United States generally accepted accounting principles *(continued)*

(i) Property capitalization

Under Canadian GAAP, the Company capitalizes only the material component of track replacement costs, whereas effective January 1, 1997, under U.S. GAAP the labor, material and related overheads are capitalized. Furthermore, effective January 1, 1999, the Company capitalized under U.S. GAAP all major expenditures for work that extends the useful life and/or improves the functionality of bridges and other structures and freight cars. U.S. GAAP requires that the cumulative capitalization adjustment, including special charges (net of applicable income taxes), be reflected in net income in the year in which the policy is adopted ($62 million in 1999).

(ii) Stock-based compensation

U.S. GAAP requires the measurement and recognition of expenses related to certain stock-based compensation. The Company has accounted for stock-based compensation for U.S. GAAP purposes in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." There are no similar requirements under Canadian GAAP.

(iii) Convertible preferred securities

The convertible preferred securities are treated as equity under Canadian GAAP, whereas under U.S. GAAP, they are treated as debt. Consequently, the interest on the convertible preferred securities is treated as a dividend for Canadian GAAP but as interest expense for U.S. GAAP.

(iv) Equity in earnings of Illinois Central Corporation

Under Canadian GAAP, the Company capitalizes the material component of track replacement costs, whereas IC, under U.S. GAAP, capitalizes the labor, material and related overheads.

(v) Foreign exchange

U.S. GAAP requires immediate recognition in income of unrealized foreign currency exchange gains and losses on long-term monetary items with a fixed or ascertainable life, whereas Canadian accounting principles require that these unrealized gains and losses be deferred and amortized. In addition, under U.S. GAAP, future revenue streams from operations do not qualify as a hedge of long-term debt denominated in U.S. dollars.

(vi) Changes in accounting policy – Pensions and post-retirement benefits other than pensions

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits, essentially to harmonize Canadian GAAP with U.S. GAAP.

Prior to 1999, the Company measured its pension benefit and post-retirement benefit obligations, for Canadian GAAP purposes, using a discount rate based on management's best estimate of the long-term rate of return on the pension fund assets. Under U.S. GAAP, the discount rate to be used should reflect the rate at which the pension benefits and post-retirement benefit costs can be effectively settled at the date of the financial statements. The difference in discount rates impacted annual pension expense and post-retirement benefit costs prior to 1999.

In 1999, the Company changed its method of accounting for employee injury costs to reflect all elements of such costs (including compensation, health care and administration costs) based on actuarially developed estimates of the ultimate cost associated with employee injuries. U.S. GAAP requires that the cumulative adjustment, net of applicable income taxes, be reflected in net income in the year in which the policy is adopted ($57 million in 1999).

In addition, effective January 1, 1998, the Company changed its accounting policy for pension costs and adopted the corridor approach to account for experience gains and losses, as described in Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions," thereby conforming the Company's accounting practices with industry practice. Accordingly, experience gains and losses within the specified corridor were not amortized in 1998. U.S. GAAP requires that the cumulative effect of a change in accounting policy (net of applicable income taxes) be reflected in net income in the year in which the policy is adopted ($42 million in 1998).

B. Earnings per share

In 2000, the Company early adopted the CICA recommendations related to the presentation of earnings per share. Although the standard essentially harmonizes Canadian and U.S. standards, the earnings per share calculations continue to differ due to differences in the earnings figures.

(i) Basic earnings per share

Year ended December 31,	**2000**	1999	1998
Income before cumulative effect of changes in accounting policy – U.S. GAAP	**$4.81**	$3.78	$1.22
Cumulative effect of changes in accounting policy	**–**	0.03	0.23
Net income – U.S. GAAP	**$4.81**	$3.81	$1.45
Weighted-average number of common shares outstanding *(in millions)* – U.S. GAAP	**195.0**	197.3	183.1

(ii) Diluted earnings per share

Year ended December 31,	**2000**	1999	1998
Income before cumulative effect of changes in accounting policy – U.S. GAAP	**$4.67**	$3.71	$1.21
Cumulative effect of changes in accounting policy	**–**	0.03	0.23
Net income – U.S. GAAP	**$4.67**	$3.74	$1.44
Weighted-average number of common shares outstanding *(in millions)* – U.S. GAAP	**202.8**	202.5	184.8

(iii) Pro forma earnings per share

The following earnings per share figures assume that all accounting policy changes were applied retroactively.

In millions, except per share data *Year ended December 31,*	1999	1998
Income before cumulative effect of changes in accounting policy – U.S. GAAP	$ 746	$ 214
Basic earnings per share	$3.78	$1.17
Diluted earnings per share	$3.71	$1.16
Net income – U.S. GAAP	$ 746	$ 214
Basic earnings per share	$3.78	$1.17
Diluted earnings per share	$3.71	$1.16

(iv) Earnings per share (excluding special charge)

Earnings per share excluding special charge as disclosed in Note 20 would not be presented under U.S. GAAP.

C. Reconciliation of significant balance sheet items

(i) Employee share purchase loans

Amounts receivable under employee share purchase loans were included in Other current assets and Other assets and deferred charges for Canadian GAAP purposes. For U.S. GAAP purposes, these amounts were classified as a reduction of Shareholders' equity. These employee share purchase loans were repaid in 2000.

(ii) Joint ventures

Interests in joint ventures are accounted for using the proportionate consolidation method for Canadian GAAP. Under U.S. GAAP, joint ventures are accounted for using the equity method.

(iii) Shareholders' equity

As permitted under Canadian GAAP, the Company eliminated its accumulated deficit of $811 million as of June 30, 1995 through a reduction of the capital stock in the amount of $1,300 million, and created a contributed surplus of $489 million. Such a reorganization within Shareholders' equity is not permitted under U.S. GAAP.

Under Canadian GAAP, the dividend in kind declared in 1995 (with respect to land transfers) and other capital transactions were deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Retained earnings.

Under Canadian GAAP, costs related to the sale of shares have been deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Capital stock.

Under Canadian GAAP, the excess in cost over the stated value resulting from the repurchase of shares was allocated first to Share capital, then to Contributed surplus and finally to Retained earnings. Under U.S. GAAP, the excess would have been allocated to Capital stock followed by Retained earnings.

For Canadian and U.S. GAAP purposes, the Company designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in its U.S. subsidiaries. Under Canadian GAAP, the resulting net unrealized foreign exchange gain, from the date of designation, has been included in Currency translation. For U.S. GAAP purposes, the resulting net unrealized foreign exchange gain as well as a minimum pension liability adjustment would have been included as part of Other comprehensive income in the Consolidated Statement of Comprehensive Income and Accumulated other comprehensive income, a separate component of Shareholders' equity, as required under SFAS No. 130, "Reporting Comprehensive Income."

(iv) Investment in 360networks Inc.

In March 2000, the Company exchanged its minority equity investments in certain joint venture companies for shares of 360networks Inc. In accordance with U.S. GAAP, following the 360networks Inc. initial public offering (IPO) on April 20, 2000, the Company accounts for its investment in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The shares have been classified as "available-for-sale securities" whereby the investment is carried at market value on the balance sheet as part of Other assets and deferred charges. The increase in the value of the investment has been recorded in Other comprehensive income as an unrealized holding gain. At the time of sale, the unrealized holding gain or loss, net of taxes, would be reversed and reported in income. For Canadian GAAP purposes, the investment is accounted for on a historical cost basis.

(v) Accounting changes

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits. Specifically, the standard outlines guidance for the accounting for pension, post-retirement and workers' compensation costs. In accordance with the transitional provisions of the new standard, the Company has applied the recommendations retroactively but has not restated comparative periods. The cumulative effect of the adoption of the new standard of $17 million ($9 million after tax) has been reflected as an adjustment to 1999 opening retained earnings.

(vi) Convertible preferred securities

The convertible preferred securities are treated as equity under Canadian GAAP, whereas under U.S. GAAP, they are treated as debt. Consequently, the costs related to the issuance of the convertible preferred securities are, for Canadian GAAP purposes, treated as an equity transaction and netted against the consideration received while under U.S. GAAP, the costs are reported as deferred charges and amortized over the term to maturity.

23 Reconciliation of Canadian and United States generally accepted accounting principles *(continued)*

(vii) The application of U.S. GAAP would have a significant effect on the following balance sheet items as reported:

In millions December 31,	2000	1999
Current assets – Canadian GAAP	$ 1,125	$ 1,527
Joint ventures and other	(17)	(10)
Employee share purchase loans receivable	–	(2)
Current assets – U.S. GAAP	$ 1,108	$ 1,515
Properties – Canadian GAAP	$13,583	$12,863
Property capitalization, net of depreciation and including cumulative effect of change in accounting policy	2,053	1,775
Joint ventures and other	2	(18)
Properties – U.S. GAAP	$15,638	$14,620
Other assets and deferred charges – Canadian GAAP	$ 488	$ 367
Investment in 360networks Inc.	129	–
Joint ventures and other	16	(5)
Debt issue costs	12	12
Unrealized exchange loss on long-term debt	(77)	(79)
Other assets and deferred charges – U.S. GAAP	$ 568	$ 295
Current liabilities – Canadian GAAP	$ 1,903	$ 1,777
Joint ventures and other	2	(13)
Current liabilities – U.S. GAAP	$ 1,905	$ 1,764
Deferred income tax liability (asset) – Canadian GAAP	$ 2,516	$ 2,253
Cumulative effect of prior years' adjustment to income	725	632
Income taxes on current year U.S. GAAP adjustments	94	93
Investment in 360networks Inc.	35	–
Joint ventures and other	5	(3)
Deferred income tax liability – U.S. GAAP	$ 3,375	$ 2,975
Other liabilities and deferred credits – Canadian GAAP	$ 1,193	$ 1,260
Stock-based compensation	13	28
Joint ventures and other	(1)	(1)
Other liabilities and deferred credits – U.S. GAAP	$ 1,205	$ 1,287
Long-term debt – Canadian GAAP	$ 3,886	$ 3,961
Joint ventures	–	(13)
Long-term debt – U.S. GAAP	$ 3,886	$ 3,948
Capital stock – Canadian GAAP	$ 3,124	$ 3,311
Capital reorganization	1,300	1,300
Employee share purchase loans receivable	–	(2)
Costs related to the sale of shares	(33)	(33)
Stock-based compensation	40	21
Share repurchase program	(82)	–
Capital stock – U.S. GAAP	$ 4,349	$ 4,597
In millions December 31,	2000	1999
Convertible preferred securities – Canadian GAAP	$ 327	$ 327
Debt issue costs	12	12
Unrealized exchange (gain) loss on convertible preferred securities	6	(5)
Convertible preferred securities (classified as debt) – U.S. GAAP	$ 345	$ 334
Contributed surplus – Canadian GAAP	$ 178	$ 190
Dividend in kind with respect to land transfers	248	248
Costs related to the sale of shares	33	33
Other transactions and related income tax effect	18	18
Share repurchase program	12	–
Capital reorganization	(489)	(489)
Contributed surplus – U.S. GAAP	$ –	$ –
Currency translation – Canadian GAAP	$ 61	$ (9)
Unrealized exchange gain (loss) on convertible preferred securities, net of applicable taxes	(4)	3
Investment in 360networks Inc., net of applicable taxes	94	–
Accumulated other comprehensive income (loss) – U.S. GAAP	$ 151	$ (6)
Retained earnings – Canadian GAAP	$ 2,008	$ 1,687
Cumulative effect of prior years' adjustments to income	903	754
Current year adjustments to net income	165	149
Share repurchase program	70	–
Cumulative dividend on convertible preferred securities	20	9
Employee future benefits – cumulative effect of change in accounting policy	9	9
Capital reorganization	(811)	(811)
Dividend in kind with respect to land transfers	(248)	(248)
Other transactions and related income tax effect	(18)	(18)
Retained earnings – U.S. GAAP	$ 2,098	$ 1,531

D. Post-retirement benefits other than pensions

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits, essentially to harmonize Canadian GAAP with U.S. GAAP as it relates to Post-retirement benefits other than pension costs. The Company has applied the recommendations retroactively but has not restated comparative periods. In 1998, the disclosures required by SFAS No. 132, "Employers' Disclosures about Pensions and Other Post-retirement Benefits," were as follows:

(i) Components of net periodic benefit cost

In millions *Year ended December 31,*	1998
Service cost	$ 4
Interest cost	11
Amortization of prior service cost	1
Recognized net actuarial loss	1
Net periodic benefit cost	$ 17

(ii) Weighted-average assumptions

December 31,	1998
Discount rate	6.00%
Rate of compensation increase	4.25%

E. Pension costs and obligation

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits, essentially to harmonize Canadian GAAP with U.S. GAAP as it relates to pension costs and obligation. The Company has applied the recommendations retroactively but has not restated comparative periods. In 1998, the disclosures required by SFAS No. 132 were as follows:

(i) Components of net periodic benefit cost

In millions Year ended December 31,	1998
Service cost	$ 81
Interest cost	629
Expected return on plan assets	(701)
Amortization of net transition obligation	21
Amortization of prior service cost	20
Net periodic benefit cost	$ 50

(ii) Weighted-average assumptions

December 31,	1998
Discount rate	6.00%
Rate of compensation increase	4.25%
Expected return on plan assets for year ending December 31	9.00%

24 Illinois Central Railroad Company consolidated financial information

The Company has fully and unconditionally guaranteed certain publicly issued debt of Illinois Central Railroad Company (ICRR). Consequently, the Company has not presented separate financial statements and other disclosures, other than those presented below, because management has determined that such information is not material to the holders of ICRR debt.

Summary financial information for ICRR, on its historical cost basis, prepared in accordance with U.S. GAAP, for the years ended December 31, 2000, 1999 and 1998, and as at December 31, 2000 and 1999, is presented below.

Illinois Central Railroad Company
Condensed Consolidated Statement of Income

In millions of U.S.$ Year ended December 31,	2000	1999	1998
Revenues	**$685**	$662	$645
Operating expenses	**561**	519	436
Operating income	**124**	143	209
Interest expense	**(64)**	(48)	(28)
Other income	**37**	4	11
Income before income taxes	**97**	99	192
Income tax expense	**(35)**	(37)	(71)
Net income	**$ 62**	$ 62	$121

The 2000 and 1999 operating expenses include revised estimates related to legal, casualty and other expenses that form part of the purchase accounting adjustments on consolidation.

Illinois Central Railroad Company
Condensed Consolidated Balance Sheet

In millions of U.S.$ December 31,	2000	1999
Assets		
Current assets	**$ 98**	$ 220
Non-current assets	**1,890**	1,735
Total assets	**$1,988**	$1,955
Liabilities and shareholder's equity		
Current liabilities	**$ 333**	$ 282
Payable to affiliate	**578**	578
Long-term debt	**409**	512
Deferred income taxes	**329**	337
Other liabilities and reserves	**202**	171
Shareholder's equity	**137**	75
Total liabilities and shareholder's equity	**$1,988**	$1,955

25 Quarterly financial data – unaudited

In millions, except per share data

	2000				1999			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Revenues	$1,396	$1,334	$1,337	$1,379	$1,392	$1,288	$1,306	$1,275
Operating income	$ 344	$ 321	$ 346	$ 374	$ 339	$ 302	$ 308	$ 284
Net income	$ 174	$ 161	$ 187	$ 250	$ 174	$ 155	$ 142	$ 131
Basic earnings per share	$ 0.90	$ 0.82	$ 0.95	$ 1.23	$ 0.85	$ 0.75	$ 0.74	$ 0.68
Diluted earnings per share	$ 0.87	$ 0.80	$ 0.92	$ 1.20	$ 0.83	$ 0.74	$ 0.73	$ 0.68
Dividend declared per share	$0.175	$0.175	$0.175	$0.175	$ 0.15	$ 0.15	$ 0.15	$ 0.15

26 Comparative figures

Certain figures, previously reported for 1999 and 1998, have been reclassified to conform with the basis of presentation adopted in the current year.

The CN Pension Plan and the CN 1935 Pension Plan

General review

Trustee

Montreal Trust Company of Canada (Montreal Trust) is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds, or Funds). As Trustee, Montreal Trust performs certain duties which include holding legal title to the assets of the Funds and ensuring that Canadian National Railway Company (CN), as Administrator, complies with the provisions of the CN Pension Plan, the CN 1935 Pension Plan and the Pension Benefits Standards Act, 1985 and its regulations. The checks and direct deposit statements in respect of these plans are issued in the name of Montreal Trust, Trustee of the CN Pension Trust Funds.

Administration of the pension plans

Overall accountability for the pension and benefit administration is the responsibility of CN. William M. Mercer Limitée, an employee benefits consulting firm, performs agreed-on pension and benefit administration services on behalf of CN.

Indexation agreement

As a result of the indexation agreement negotiated with the railway unions in 1989 and improvements to such agreement negotiated in 1992 and 1998, approximately 41,740 retirees and surviving spouses received permanent pension increases in 2000. These increases amounted to 0.66% on the first $2,500 of the basic CN monthly pension, with a guaranteed minimum monthly pension increase of $9.00 for eligible retirees and $4.50 for eligible surviving spouses.

Under this indexation agreement, effective January 1, 1989, 50% of the experience gains or losses related to pensioners are accounted for separately in the Escalation Account. These net experience gains are used exclusively to pay for indexation of pensions above the minimum up to the maximum annual amount. The maximum annual indexation for eligible retirees and survivors is 60% of the increase in the Consumer Price Index (CPI) to a maximum increase in CPI of 6%, with an annual limit on the amount of pension which can be indexed.

In addition, the Pension Committee may recommend additional benefits for pensioners, financed from the Escalation Account, if the balance in the account exceeds a certain threshold. These additional benefits are subject to approval by CN's Board of Directors and are not to exceed the amount above the threshold. In 2000, a recommendation was made by the Pension Committee and approved by CN's Board of Directors to grant a special increase to pensioners effective January 1, 2001.

The basic eligibility requirements, in 2000, to qualify for indexation and the additional benefits were to have been retired for five complete calendar years and to have reached age 60.

Improvement accounts

Effective January 1, 1998, the unions and the Company agreed to share the experience gains (losses) resulting from investment earnings related to active unionized members of the CN Pension Plan, based on the same concept as the indexation agreement. Under this agreement, annual calculations will determine the amounts of the experience gains or losses to be credited (debited) to an account referred to as an Improvement Account, and the balance of such account, if positive, may be used to improve benefits of unionized active members or reduce their contributions, as recommended by the Pension Committee and approved by CN's Board of Directors. The Improvement Account concept was also extended to non-unionized members and separate accounts were created for unionized and non-unionized members.

As part of the agreement, CN allocated a starting balance on January 1, 1998 of $45 million and $12 million to the unionized and non-unionized Improvement Accounts, respectively.

Some recommendations were made in 2000 by the Pension Committee and approved by CN's Board of Directors. These recommendations dealt with minor pension improvements.

Annual pension statements

As required by the Pension Benefits Standards Act, 1985 and to keep employees who are members updated annually on their personal entitlement, personalized pension statements were prepared as at December 31, 1999 and distributed by June 2000.

Services to pensioners

A. Direct deposit:

The Direct Deposit System (DDS) is available to all retirees and survivors. Under this system, the monthly pension benefit is deposited directly into the individual's personal account. An itemized pension pay stub is sent to that individual initially, each January and whenever the gross or net amount changes. About 41,435 pensioners used this service in 2000.

B. Toll-free help lines:

Approximately 51,625 calls were handled in 2000 through the central toll-free help line (1-800-361-0739). Staff handling the toll-free telephone line have ready access to records and information required for quick, efficient and accurate responses to most callers' needs – in both of Canada's official languages.

The CN Pension Plan and the CN 1935 Pension Plan

Trustee's report

To the Administrator and the Members of the CN Pension Plan and the CN 1935 Pension Plan

We, Montreal Trust Company of Canada, are the Trustee of the Canadian National Railways Pension Trust Funds ("CN Pension Trust Funds").

As Trustee, we have appointed KPMG LLP to examine the systems, procedures and internal controls used in respect to the custody, investment and administration of the assets of the CN Pension Trust Funds, the administration of the CN Pension Plan and the CN 1935 Pension Plan ("1935 Plan"), and the performance of Canadian National Railway Company ("CN") as Administrator of the CN Pension Plan and the 1935 Plan for the year ended December 31, 2000.

Our examination included such tests and procedures as were considered necessary in the circumstances taking into consideration the requirements of the Trust Deeds and our experience in the Canadian pension industry.

In our opinion, based on the reasonable, but not absolute, degree of assurance obtained from the examination performed, the aforementioned systems, procedures and internal controls, used by CN as Administrator, operated effectively during the year ended December 31, 2000, and complied with the objectives of the Pension Benefits Standards Act, 1985 and its Regulations.

Montreal Trust Company of Canada
Trustee of the Canadian National Railways
Pension Trust Funds

Montreal, January 23, 2001

Actuary's report

To the Board of Directors
Canadian National Railways Pension Trust Funds

We have conducted actuarial valuations for funding purposes as at December 31, 1999 for the CN Pension Plan and the CN 1935 Pension Plan.

As at December 31, 1999, these valuations revealed a consolidated actuarial liability of $9,367 million, a consolidated surplus of $290 million and a consolidated Company current service cost of $59 million in 2000. The next actuarial valuations will be conducted as at December 31, 2002, at the latest.

In my opinion, for the purposes of the valuations,

- the data on which these valuations were based were sufficient and reliable,
- the assumptions are, in aggregate, appropriate; and
- the methods employed in the valuations are appropriate.

We have also conducted actuarial valuations for accounting purposes as at December 31, 1999 for the CN Pension Plan and the CN 1935 Pension Plan.

These valuations were made in accordance with requirements of Section 3461 of the Handbook of the Canadian Institute of Chartered Accountants (CICA). They revealed a consolidated actuarial liability of $9,796 million.

The difference between the results of the actuarial valuations conducted for funding purposes and those conducted for accounting purposes is mainly due to the CICA Handbook Section 3461 requirement to use an interest rate inherent in the amount at which the actuarial liability could be settled at the date of valuation.

Both valuations have been prepared, and my opinions given, in accordance with accepted actuarial practice.

Bernard Morency
Fellow of the Canadian Institute of Actuaries
William M. Mercer Limitée

Montreal, January 23, 2001

The CN Pension Plan and the CN 1935 Pension Plan

Auditors' report

To the Board of Directors of
Canadian National Railway Company

We have audited the consolidated statement of net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 2000, and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 2000 and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 23, 2001

Consolidated Statement of Net Assets at Market Value

In millions *As at December 31,*	2000	1999
Bonds	$ 3,744	$ 2,969
Mortgages	261	264
Real estate	261	322
Oil and gas	377	241
Equities	7,255	7,639
Cash and short-term investments	421	207
	12,319	11,642
Receivable from Canadian National Railway Company	21	5
Net other assets	16	17
	$12,356	$11,664

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets at Market Value

In millions *Year ended December 31,*	2000	1999
Net assets at market value, beginning of year	**$11,664**	$10,616
Investment income		
Bonds	**190**	225
Mortgages	**20**	17
Real estate	**8**	9
Oil and gas	**46**	21
Equities	**74**	65
Short-term investments	**23**	6
	361	343
Less administrative expenses	**(15)**	(13)
Investment income before gains (losses) on sales of investments	**346**	330
Gains (losses) on sales of investments	**919**	(44)
Total investment income	**1,265**	286
Unrealized appreciation (depreciation) in value of investments	**(69)**	1,276
Contributions		
Employees	**74**	73
Company	**59**	59
Total contributions	**133**	132
Disbursements for members		
Pension benefits paid	**(587)**	(591)
Refunds	**(47)**	(52)
Total disbursements for members	**(634)**	(643)
Transfers	**(3)**	(3)
Net increase	**692**	1,048
Net assets at market value, end of year	**$12,356**	$11,664

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Description of plans

These consolidated financial statements cover two pension plans, the CN Pension Plan and the CN 1935 Pension Plan (CN Plans), and include the accounts of the Canadian National Railways Pension Trust Funds and its wholly owned companies. All references in these financial statements to the "Company" refer to Canadian National Railway Company, which is the Administrator of the CN Plans. The CN 1935 Pension Plan is for a closed group of members and represents less than 1% of the pension obligation of the plans. Therefore, the following is a summarized description of the CN Pension Plan only. Please refer to the rules of the CN Pension Plan for additional information.

A. General

The CN Pension Plan (Plan) is a contributory defined benefit pension plan generally applicable for new employees from the first day of employment. Under this Plan, employees contribute between 5.48% and 5.88% of earnings up to the Year's Maximum Pensionable Earnings (YMPE) under the Canada or Quebec Pension Plan and between 6.98% and 7.38% of earnings in excess of the YMPE up to a maximum of $6,077 in 2000. Participants are not required to make contributions after 35 years of pensionable service. Company contributions are determined on the basis of actuarial valuations done at least on a triennial basis in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder.

B. Pensions

Pensions are based on the employee's average pensionable earnings for the best five consecutive calendar years or the last 60 months of employment at the rate of 2% for each year of pensionable service prior to January 1, 1966, 1.5% for each year of pensionable service thereafter up to the average YMPE over the last 60 months, and 2% of the excess of such average pensionable earnings over the average YMPE. The maximum annual pension payable is $1,715 multiplied by the pensionable service of the member. Pensionable service is limited to 35 years.

C. Retirement age

The normal retirement age is 65. However, employees with 85 points (age plus pensionable service) and with the Company's consent are entitled to an early retirement pension without reduction as long as they are at least 55 years of age. Furthermore, employees with less than 85 points can retire anytime from age 55 with a reduction in their pension of 0.5% for each month (6% per year) between their date of retirement and their 65th birthday.

D. Disability pensions

A member with 10 years of pensionable service who is either declared unfit to perform his/her usual employment with the Company due to a permanent disability which occurred prior to 1992, or is declared totally and permanently disabled due to a disability which occurred after 1991, may, subject to certain conditions, apply for an immediate reduced or unreduced pension. Any declarations in respect of a member's disability are the responsibility of CN's Chief Medical Officer.

E. Pre-retirement survivors' pensions and death refunds

A survivor's pension is payable to the eligible spouse of a member who had a minimum of two years of plan membership upon his/her death. Otherwise, a death refund is payable to the spouse, or if there is no spouse, to the estate of the member.

F. Post-retirement survivors' pensions and estate settlements

Upon the death of a retiree who had an eligible spouse at retirement, either 55% or 60% of the basic pension of the retiree is payable to that spouse during his/her lifetime depending on the option elected at retirement. The survivor pension is guaranteed for the first 10 years after retirement. If the retiree and the surviving spouse, if any, die in the first 10 years after retirement, the survivor pension will be payable to the estate of the retiree until the 10-year period is over.

G. Termination benefits

Upon termination of service, a member is entitled to either his/her contributions with interest or to the value of his/her benefits accrued under the Plan or to a deferred pension or a combination of the above, depending on his/her age, pensionable service and years of membership at termination.

H. Income taxes

The Plan is registered under the Income Tax Act and Regulations. Contributions to the Plan are tax deductible and investment income of the Canadian National Railways Pension Trust Funds is not taxable in Canada. Investment income from some foreign countries is subject to withholding taxes, which are either fully or partially recovered.

2 Summary of significant accounting policies

A. Basis of presentation

These consolidated financial statements are prepared on a market value basis, in accordance with generally accepted accounting principles in Canada for pension plans, which require management to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from these estimates. These statements present the aggregate financial position of the CN Plans as a separate financial reporting entity, independent of the sponsor and plan members, and are prepared to assist plan members and others in reviewing the activities of the CN Plans for the year, but they do not portray the funding requirements of the CN Plans or the benefit security of individual members.

B. Valuation of net assets

Market value is determined using publicly quoted prices where available. When such prices are not available, market values are estimated on the basis of: the present value of estimated future net cash flows, the market value of comparable assets, or the breakup value of underlying assets.

Valuation of net assets by category is as follows:

(i) Bonds are valued using the closing market bid as at December 31.

(ii) Mortgages are valued using current market yields of financial instruments of similar maturity and at appropriate spreads from instruments of comparable quality.

(iii) Real estate consists of land, buildings and equities. Land is valued using the market value of comparable assets, and buildings are valued using the present value of estimated future net cash flows and the market value of comparable assets. Independent valuations of land and buildings are performed triennially. Equities are valued using closing market quotations as at December 31.

(iv) Oil and gas reserves are valued using the present value of estimated future net cash flows, which are based on projected production, prices and costs. Land is valued using the market value of comparable assets. Trust units are valued using the closing market price as at December 31.

(v) Equities are valued using the closing market price as at December 31.

(vi) Short-term investments and other assets are valued at cost, which approximates market value.

(vii) Listed derivative financial instruments are valued using the market settlement price as at December 31. Unlisted derivative financial instruments are valued using the present value of future net cash flows determined by using closing market levels and interest rates for instruments of similar maturity and credit risk.

C. Income recognition

Dividends are accrued on the ex-dividend date; income from other investments is accrued as earned. Gains or losses on sales of investments are recognized on the dates of sales and are calculated on the basis of the average cost of the assets.

D. Foreign exchange

Assets and liabilities denominated in foreign currencies are translated using current rates as at December 31 or at the forward foreign exchange contract rates for investments that are hedged. Foreign dividends and interest income are translated at the rates prevailing when accrued.

E. Change in market value

The change in market value has been segregated in the Consolidated Statement of Changes in Net Assets at Market Value between gains or losses on the sales of investments during the year and the unrealized appreciation (depreciation) in the value of investments, which is the balance of the change in market value of investments for the year.

F. Contributions

Contributions from employees are recorded in the period in which the Company makes payroll deductions. The contributions from the Company, as determined by the latest actuarial valuations, are recorded using the accrual method.

G. Transfers

Transfers to/from other funds are accounted for in the period in which the value of the transfers can be reasonably estimated.

3 Investments

All investments are securities, assets or financial instruments where the CN Plans' original intention is to hold to maturity or until market conditions render alternative investments more attractive. Significant terms and conditions of investments as at December 31 are as follows:

Bonds, 91% (80% in 1999) of which are issued or guaranteed by Canadian or U.S. governments, 7% (8% in 1999) by corporations, and 2% (12% in 1999) by supranational agencies, have a market weighted-average coupon of 6.3% (6.7% in 1999). Maximum term is 31 years (30 years in 1999) with an average term of 10.3 years (7.6 years in 1999).

Mortgages, secured by real estate, have a market weighted-average coupon of 7.9% (7.9% in 1999). Maximum term is 24 years (25 years in 1999), with an average term of 8.4 years (8.8 years in 1999).

Equities are diversified by issuer, industry and by country. Canadian domiciled companies represent 48% (43% in 1999) of the equity portfolio and allocations to individual issuers or industry sectors are limited to 3.0% and 15.5% (6.7% and 26.2% in 1999), respectively.

Short-term investments, primarily securities issued by the Government of Canada and Canadian chartered banks, have an average term of 32 days (20 days in 1999) and an average yield of 5.8% (4.7% in 1999).

Derivatives are financial instruments whose value is derived from interest rates, foreign exchange rates, equity or commodity prices. Derivatives include forwards, futures, swaps and options.

From time to time, the CN Plans use derivatives for asset mix management purposes or to hedge the exposure to foreign currency, interest rate or market risks of the portfolio or anticipated transactions.

3 Investments *(continued)*

Notional amounts of derivative contracts by risk category affected were as follows:

In millions	*As at December 31,* 2000	1999
Foreign currency	$1,713	$1,734
Interest rate	889	999
Equity and commodity	5	14

The weighted-average term of the above contracts was 81 days (78 days in 1999). The value of derivative instruments is $33.5 million ($6.9 million in 1999) and is included in the values of bonds and equities, which are the asset classes affected.

The majority of the interest rate derivative contracts extend the average duration of the bond portfolio by 0.7 years to 7.2 years (6.9 years in 1999). The remainder are used for asset mix management purposes.

4 Credit risk

Credit risk arises from the potential for an investee to fail or a counterparty to default on its contractual obligations to the CN Plans.

In accordance with formally established policies, the CN Plans manage credit risk by dealing with counterparties considered to be of high credit quality, utilizing an internal credit limit monitoring process as well as credit mitigation techniques such as master netting and collateral agreements.

At year end, the CN Plans' most significant concentrations of credit risk were with the governments of Canada and the United States, which issued or guaranteed $1,844 million and $996 million ($1,508 and $459 million in 1999) respectively of securities held by the CN Plans. Excluding the above, the remainder of assets are diversified with no other issuer accounting for more than 2.0% (4.4% in 1999) of total net assets.

The credit risk of derivative instruments is limited to the cost of replacing, at current market value, all contracts which have a positive value. The following table shows the credit risk of all derivative instruments outstanding at year end.

Credit risk – Derivative instruments

In millions	*As at December 31,* 2000	1999
Maximum exposure	$34	$16
Less effect of master netting and collateral agreements	–	(2)
Net credit risk	$34	$14

5 Funding policy

In respect of the CN Plans, the contributions by the Company are determined in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder, and are based on the projected unit credit actuarial cost method, with projection of salaries where future salary changes affect the amount of the projected benefits. In the case of the CN 1935 Pension Plan, the Company makes money purchase contributions in accordance with the rules of the plan.

The latest actuarial valuations of the CN Plans were prepared by William M. Mercer Limitée as at December 31, 1999 and were submitted to the Superintendent of Financial Institutions and to the Canada Customs and Revenue Agency. In these actuarial valuations, the principal assumptions adopted [illegible] CN Plans' actuary are: members' mortality, disability, retirement, termination of employment, merit and periodic increases in earnings, as well as a long-term rate of return of 7.5% per annum on investments. Future increases in members' earnings have been projected using economic assumptions consistent with this long-term rate of return.

6 Transfers

In 2000, the accounts include a provision for the amounts to be remitted to/from other funds to cover transfers of members of CN Plans to other pension plans and transfers of members of other plans to the CN Plans.

7 Consolidated actuarial pension obligation and asset value

The actuarial valuations as at December 31, 1999 revealed a consolidated actuarial liability of $9,796 million and a consolidated actuarial asset value of $9,657 million. The results of these valuations were then used to estimate the corresponding figures as at December 31, 2000, which approximate $10,756 million and $10,445 million, respectively, as at that date. The principal components of the change in the pension obligations are the interest accrued on benefits ($682 million in 2000 and $625 million in 1999), benefit payments and transfers ($637 million in 2000 and $646 million in 1999), benefits accrued during the year ($143 million in 2000 and $167 million in 1999), and actuarial gain (loss) (($772) million in 2000 and $762 million in 1999). The consolidated actuarial liability was calculated in accordance with CICA Handbook Section 3461 using a discount rate of 7% as at December 31, 1999 and a discount rate of 6.5% as at December 31, 2000. The consolidated actuarial asset value is based on a market-related method, which recognizes the change in market value over a period of five years using the straight-line method.

2000 President's Awards for Excellence

A record number of CN employees from Montreal to Vancouver to Geismar, Louisiana, were recipients of the 2000 President's Awards for Excellence. Either on their own or in teams that ranged from two people to 58, they all exhibited an exceptional commitment to their jobs and communities, and helped the company realize its goal of being North America's best railroad. These award-winning employees demonstrate what ingenuity, creativity, relationship building, commitment and courage are all about.

Category: Exceptional Service – Individual

Ron Guillot – Geismar, Louisiana

Doing the day-to-day job as chief clerk in Transportation is not enough for Ron. He likes to look for ways to improve things and then make them happen. Conducting research on his own time, Ron took it upon himself to find a way to increase outbound loads. His suggestions for service improvements and his efforts to reinforce customer relationships paid off. The result: a 20% increase in outbound loads from Geismar.

Category: Exceptional Service – Team

Lynn Creek Yard employees – *North Vancouver, British Columbia*
Gary Ager, John Ashcroft, Frank Boulet, Rick Brandon, Melanie Brian, Don Brunton, John Buchanan, Ross Butler, Steve Callan, Roger Carrie, Ken Chesser, Lee Coberg, Craig Cooper, Manuel Crosby, James Dydzuk, Des Ellie, Larry Felton, Lyle Franko, Dennis Gielens, Al Harkins, John Harrison, Dean Hepperle, Randy Hodges, Paul Hopkins, Roger Kaska, John Kowalchuck, Mike Kutcher, Walter Laybourn, Paul Levers, Gord Ludvigson, Chris Macdonald, Bob Marshall, Randy Martin, Brian Matson, Bob Mckenzie, Norman Mengelberg, Ivan Michal, Andrew Millar, Marcos Mirus, Frank Moore, Michael Morrow, Pio Parisi, Greg Poole, David Radford, Dave Robb, Graham Rykyta, Al Rylott, Ben Schmidt, Darcy Sheppard, Dean Stark, Cliff Temple, John Wagar, Margie Wagenaar, Ron Weiland, Ed Wiktorowicz, Brian Wilkin, Brian Yates, Karen Zatichik

This impressive-sized group is a sterling example of teamwork. They all pulled together to introduce new processes that helped them better manage their traffic and meet commitments at Lynn Creek Yard. This significant effort resulted not only in improved service but also enhanced customer relations.

Category: Safety

Jerome Milano, Sherman Scott – Geismar, Louisiana

These two men have a passion for safe work practices, which they have translated into an impressive record within the Geismar Terminal's Mechanical Department where they work. The safety initiatives they have undertaken are largely responsible for the fact that there have been no personal injuries reported there in ten and a half years.

Category: New Business Opportunities

Ruby Browner, Lynn Alvarez – Chicago, Illinois; William Chiodin, James Fitzgerald – Geismar, Louisiana; Jim Krawec – Baton Rouge, Louisiana; George Burgess, Arlin Todd – New Orleans, Louisiana

These employees came together as the St. Rose Methanol Terminal team. Working from different locations, they succeeded in bringing all Louisiana-imported methanol on to CN-IC lines, an accomplishment that resulted in new business worth U.S.$3.5 million per year.

Category: Exceptional Community Service

Pierre Boucher, Marc Lebreux – Saint-Laurent, Quebec

Pierre and Marc's dedication goes beyond the workplace. They spend much of their spare time making their community a better place by helping out with various causes, such as raising funds for Christmas baskets and collecting toys for hospitalized children. One community activity that is particularly important for them is organizing trips to the circus for children with cancer.

Category: Cost Effectiveness

Warren Pritchard – Sarnia, Ontario

Warren is described by his nominators as "one of the premier heavy-duty mechanics of our company." He certainly proved this to be true when he found a way to repair and maintain compressors that saved his department more than $60,000 a year.

Category: Bravery

Dave Mahmat, Donald Spooner – Battle Creek, Michigan

Dave and Donald put another man's life before their own when they saved him from certain death. They stopped to investigate when they found smoke billowing from a car and discovered the driver asleep. They quickly pulled him to safety and, in so doing, saved his life, as the car caught fire seconds after.

Category: Bravery

Claude Ladouceur, Yves Paquette, Jean-Pierre Fortin – Les Côteaux, Quebec

These three men proved themselves capable of courage and quick thinking when they came upon the scene of a fire. They succeeded in rescuing a man who was trapped on the second floor of a burning building and had the presence of mind to evacuate neighboring buildings.

Category: Bravery

Daryl Schmon – Saskatoon, Saskatchewan

Arriving at the scene of an accident, Daryl quickly saw what had to be done and took immediate action. When he discovered that an injured truck driver was trapped inside his vehicle, he held the driver's head out of a pool of fuel leaking from the engine and kept him from drowning until rescue personnel arrived.

Category: Operational Breakthrough

Alex Nashman – Edmonton, Alberta

While developing a winter contingency plan for Chicago, Alex took the initiative to reduce CN's reliance on the Belt railway in Chicago, saving the company close to U.S.$2.5 million per year.

Category: Quality Improvement

Gerry St-Cyr and Brian Lavallée – Capreol, Ontario

Brian and Gerry developed a two-phase plan to minimize the impact of pole line failures following severe storms. Their plan, which included transferring radio networks and the code system from pole lines to fiber optics, paid off to the tune of more than $100,000 in annual savings.

Category: People Management

James Belcher – Flat Rock, Michigan

James is known for his ability to make exceptional teamwork an everyday reality in his group. He is informative and supportive with team members and at the same time manages to maximize productivity, cut costs and emphasize safety.

Category: People Management

Karen Furlotte – Toronto, Ontario

"Treat people as you would like to be treated." This is more than just a saying; it's a working philosophy for Karen, who fosters an environment where everyone can excel. She is skilled at motivating and encouraging her team members and an expert at matching them to the job functions for which they are best suited.

David G.A. McLean   Paul M. Tellier   E. Hunter Harrison   Michael R. Armellino   Richard H. Kroft   V. Maureen Kempston Darkes   J.V. Raymond Cyr

Board of Directors

As of December 31, 2000

David G.A. McLean, O.B.C., LL.D.
Chairman of the Board
Canadian National Railway Company
Chairman and Chief Executive Officer
The McLean Group
Vancouver, BC
Committees: 2*, 3, 5, 6, 7

Paul M. Tellier, P.C., C.C., Q.C., LL.D.
President and Chief Executive Officer
Canadian National Railway Company
Montreal, QC
Committees: 3*, 7

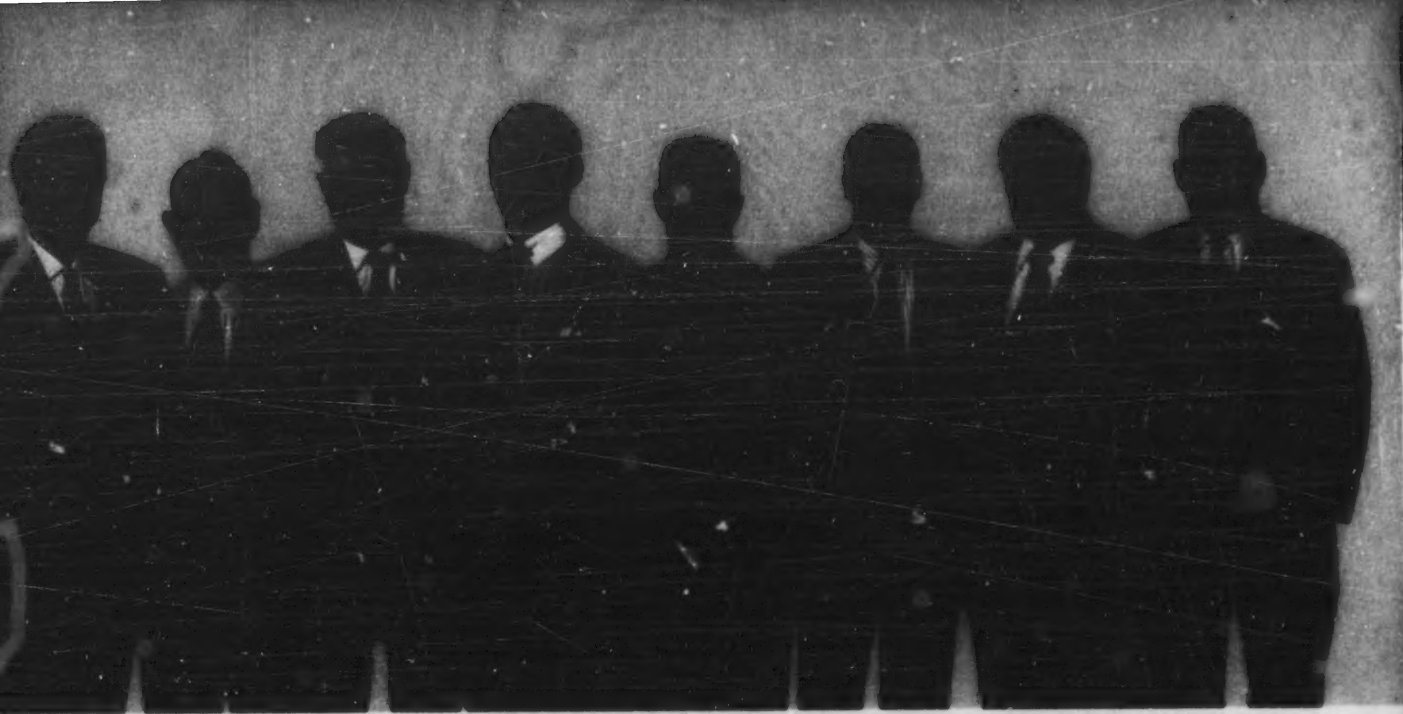
E. Hunter Harrison
Executive Vice-President
and Chief Operating Officer
Canadian National Railway Company
Burr Ridge, IL
Committee: 7

Michael R. Armellino
Retired Partner
The Goldman Sachs Group
New York, NY
Committees: 1, 6, 7

The Honorable Richard H. Kroft, C.M.
Member of the Senate of Canada
Winnipeg, MB
Committees: 1, 5, 6*, 7

V. Maureen Kempston Darkes, O.C., D.Comm., LL.D.
President and General Manager
General Motors of Canada Limited
Toronto, ON
Committees: 1, 4, 7

J.V. Raymond Cyr, O.C., LL.D.
Chairman
PolyValor Inc.
and Vice-Chairman
ART Advanced Research & Technologies Inc.
Montreal, QC
Committees: 1, 4*, 7



obert Pace   Cedric E. Ritchie   Edward C. Lumley   Alexander P. Lynch   Denis Losier   Gilbert H. Lamphere   Purdy Crawford   James K. Gray

Robert Pace
President and Chief Executive Officer
The Pace Group
Halifax, NS
Committees: 1*, 4, 5, 7

Cedric E. Ritchie, O.C., LL.D.
Corporate Director and Former Chairman and
Chief Executive Officer
The Bank of Nova Scotia
Toronto, ON
Committees: 1, 2, 6, 7*

The Honorable Edward C. Lumley, P.C., LL.D.
Vice-Chairman
BMO Nesbitt Burns
South Lancaster, ON
Committees: 2, 6, 7

Alexander P. Lynch
Managing Director – M&A
J.P. Morgan Chase & Co.
New York, NY
Committees: 1, 4, 5, 7

Denis Losier
President and Chief Executive Officer
Assumption Life
Moncton, NB
Committees: 1, 2, 6, 7

Gilbert H. Lamphere
Private Investor and
Former Chairman of the Board
Illinois Central Corporation
New York, NY
Committees: 2, 5, 6, 7

Purdy Crawford, O.C., Q.C., LL.D.
Chairman
AT&T Canada Corp.
Counsel
Osler, Hoskin & Harcourt
Toronto, ON
Committees: 2, 5*, 6, 7

James K. Gray, O.C., LL.D.
Chairman
Canadian Hunter Exploration Ltd.
Calgary, AB
Committees: 2, 4, 5, 7

Committees:

1 Audit and finance
2 Corporate governance
3 Donations
4 Environment and safety
5 Human resources
6 Investment
7 Strategic planning

* denotes chairman of the committee

Officers of the Company

David G.A. McLean
Chairman of the Board

Paul M. Tellier
President and
Chief Executive Officer

Robert F. Dolan
Senior Vice-President
Corporate Services

Sean Finn
Senior Vice-President,
Chief Legal Officer and
Corporate Secretary

James M. Foote
Executive Vice-President
Sales and Marketing

William J. Fox
Senior Vice-President
Public Affairs

E. Hunter Harrison
Executive Vice-President and
Chief Operating Officer

Keith L. Heller
Senior Vice-President
Eastern Canada Division

Jack T. McBain
Senior Vice-President
Operations

Claude Mongeau
Executive Vice-President and
Chief Financial Officer

William K. Berry
Vice-President
Intermodal

Tullio Cedraschi
President and
Chief Executive Officer
CN Investment Division

John Dalzell
Vice-President
Risk Management

Richard Dixon
Vice-President
Labour Relations and
Employment Legislation

David P. Edison
Vice-President
Pacific Division

Fred R. Grigsby
Vice-President and
Chief Information Officer

Edmond L. Harris
Chief Transportation Officer

Ghislain Houle
Vice-President and Treasurer

Stan W. Jablonski
Vice-President
Forest Products

Peter C. Marshall
Vice-President
Prairie Division

Terry R. McManaman
Vice-President
Gulf Division

Sandi J. Mielitz
Vice-President
Commercial Development
Prairie Division

Robert E. Noorigian
Vice-President
Investor Relations

Serge Pharand
Vice-President and
Corporate Comptroller

Jean-Jacques Ruest
Vice-President
Petroleum and Chemicals

Gordon T. Trafton II
Vice-President
Operations Integration

Frank J. Trotter
President and
Chief Executive Officer
Canac Inc. and
C.T. Management Inc.

Dennis E. Waller
Vice-President
Engineering and Mechanical

The annual meeting of shareholders will be held
at 10:30 am on Tuesday, April 17, 2001
at the Hyatt Regency, Vancouver, BC

The annual information form may be obtained by writing to:

The Corporate Secretary
Canadian National Railway Company
935 de La Gauchetière Street West, Montreal, Quebec H3B 2M9

Computershare Trust Company of Canada

Offices in:
Montreal, QC, Toronto, ON, Calgary, AB, Vancouver, BC
Toll-free: 1-800-332-0095
Montreal Telephone: (514) 982-7555
Fax: (514) 982-7635 Web: www.computershare.com

Computershare Trust Company of New York
88 Pine Street, 19th Floor
Wall Street Plaza, New York, NY 10005
Telephone: (212) 701-7600 or 1-800-245-7630

Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with:

Computershare Trust Company of Canada
Telephone: (514) 982-7555 or 1-800-332-0095

Canadian National common shares are listed on the Toronto and New York stock exchanges.

Ticker symbols:
CNR (Toronto Stock Exchange)
CNI (New York Stock Exchange)

Robert Noorigian
Vice-President, Investor Relations
Telephone: 1-800-319-9929
(514) 399-0052

Shareholders having inquiries concerning their shares or wishing to obtain information about CN should contact:

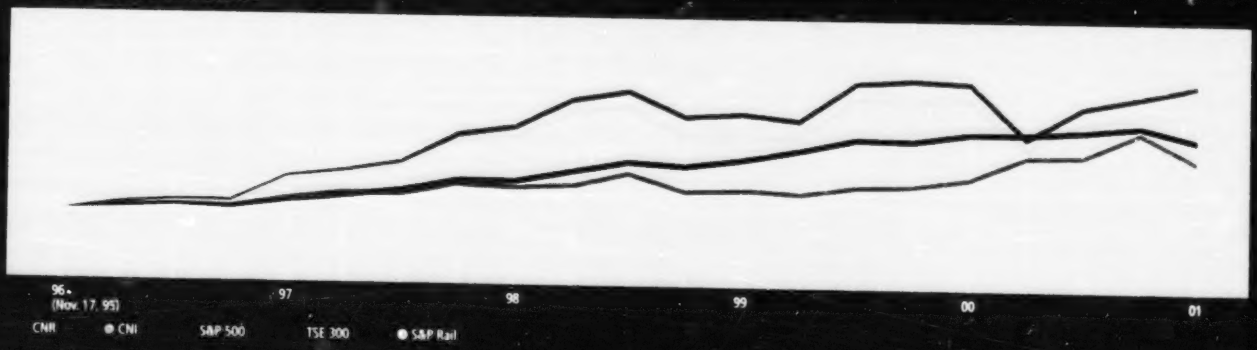
Computershare Trust Company of Canada
Shareholder Services
1800 McGill College Avenue
Montreal, Quebec H3A 3K9
Telephone: 1-800-332-0095
(514) 982-7555
Email: caregistryinfo@computershare.com

Canadian National Railway Company
935 de La Gauchetière Street West
Montreal, Quebec H3B 2M9

P.O. Box 8100
Montreal, Quebec H3C 3N4

Canadian National Stock Performance Graph

November 17, 1995 to December 29, 2000



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